Puerto Rico's Bond Investors Head to San Juan for Conference After 5-Year Bankruptcy.

- **Island hosts first bond investor conference since bankruptcy**
- **Nuveen, Invesco and T Rowe Price hold Puerto Rico's new bonds**

Mutual funds are pouring back into Puerto Rico debt, a notable comeback for the US commonwealth that's exiting the biggest ever municipal bankruptcy after five years and that still struggles with an uncertain economy bled by population loss.

Island officials are trying to make sure investors don't leave. Puerto Rico is hosting its first annual event for bond holders since before its bankruptcy in 2017, hoping to show that it's put an end to the runaway deficits that drove it into ruin and locked it out of capital markets. Among its selling points: a sharply reduced debt load that's giving it a fresh fiscal start.

Mutual funds run by big-name firms like Nuveen and Invesco have been buying the island's bonds because of the high yield they offer and the tax advantage the debt carries. This time though, the funds are going in with the knowledge that a federally-appointed financial oversight board — despised by territorial residents as a vestige of colonialism — will ensure that bondholders get repaid.

At the two-day conference, commonwealth officials and local business leaders are looking to convince even more investors and industries such as biotech and data and technology to look past the deficit spending that pushed the island into bankruptcy and buy into an economy that slumped for more than a decade as it has been battered by hurricanes, earthquakes and political corruption.

"The Puerto Rico of today is not the Puerto Rico of even five years ago. The innovation and ecosystem that is brewing here is really quite something," said Ella Woger, the acting chief executive officer of Invest Puerto Rico, a public-private partnership set up to promote business on the island. "We look forward to communicating this new narrative. We've moved beyond the fiscal crisis narrative and hurricane-stricken narrative that we had before."

Messaging

Having less debt to repay helps with that message. The commonwealth slashed $22 billion of bonds down to about $7 billion in March. The biggest mutual-fund holders of the restructured securities include Nuveen, T Rowe Price Group, Invesco, Mackay Shields and Vanguard, as of March 31, according to data compiled by Bloomberg.

"The debt has been downsized so substantially that relative to the size of the Puerto Rican economy, it looks manageable and serviceable without the kinds of stresses that forced the commonwealth into restructuring several years ago," John Miller, Nuveen's head of municipals, said in an email.

With Puerto Rico bonds rotating out of the hands of hedge funds and other distressed-debt buyers, the commonwealth has a larger investor base to tap into, Omar Marrero, executive director of Puerto Rico's Fiscal Agency and Financial Advisory Authority, said in a telephone interview. He said officials want to earn credit ratings for Puerto Rico's sales-tax and general-obligation bonds in the next year or two.

"That helps a lot with the yield and the return," Marrero said about attracting more traditional municipal-bond investors. "To the extent that future administrations want to go back to the market or see the need to go back to the market, obviously those are the type of investors that you want investing in Puerto Rico."

Commonwealth general-obligation bonds maturing in 2046 traded Friday at an average yield of 4.8%, which is about 2 percentage points more than top-rated municipals, according to data compiled by Bloomberg.

Bond Traders

Island officials have lined up municipal-bond traders from JPMorgan Chase & Co., Barclays Plc, Goldman Sachs Group Inc. and Morgan Stanley to weigh in Monday during a panel at the conference — called PRNOW Summit — on how traditional state and local debt buyers are once again investing in the island's securities. More than 500 attendees have registered for the conference Monday and Tuesday.

"They've restructured to a more reasonable amount of debt," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages $31 billion of state and local debt. "The economy there seems to be doing very well and they're getting tons of fiscal stimulus. So it seems like they're trending in a much better direction."

Puerto Rico still faces challenges. Its economy is projected to grow by 3.5% this fiscal year and next, but may contract again in fiscal 2024 and remain flat in fiscal 2025, according to the commonwealth's latest multi-year fiscal plan. The island's population is expected to continue declining through fiscal 2026.

"There are long-term risks and bondholders will have to weigh those risks," said Megan Poplowski, director of municipal research at MFS Investment Management.

Self Govern

The oversight board has clashed repeatedly with island lawmakers over issues such as spending cuts and pension benefits. It has the authority to certify a budget unilaterally if island lawmakers fail to create a compliant spending plan.

The board terminates after Puerto Rico and its public agencies, such as utilities, approve balanced budgets for four consecutive years. They must also have adequate access to the credit markets at reasonable rates before the board can leave.

Many Puerto Ricans say they want the board to end sooner because the panel has control over the island's revenue and spending and takes away from the commonwealth's ability to govern itself.

Once the board is winds down, bondholders lose a key backstop that can take action to ensure debt payments if island lawmakers fail to allocate money for principal and interest. The board did just that in February after Puerto Rico's Senate declined to take up legislation that would direct money to pay debt service this fiscal year.

“In the short term, the credit looks good because you have the board keeping an eye on the island’s finances and you have economic growth due to federal disaster aid and stimulus,” said John Ceffalio, senior municipal research analyst at CreditSights. “Over the long term, there’s a lot of credit question marks.”

Bloomberg Markets

By Michelle Kaske and Jim Wyss

June 6, 2022

S&P Charter School Brief: Michigan

View the Brief.

24 May, 2022

California’s May Revision To The Executive Budget Proposal: Revenues Are Stronger; Risks Remain - S&P

Key Takeaways:

- California’s revenues are surging over prior forecasts, although general fund revenue is projected to decline modestly in fiscal 2023 from a 2022 peak.
- Substantial proposed one-time spending could have favorable credit implications, as it could help mitigate the twin risks of either a revenue pullback, or even higher revenue growth causing the state to reach its constitutional appropriations limit.
- The state now projects structural balance in each year of its five-year projection, based on the governor’s updated budget proposal.

Continue reading.

1 Jun, 2022

Fitch: Strong Revenues Propel California Budget; Uncertainty Heightened in Forecast

Fitch Ratings-San Francisco/New York-31 May 2022: The updated budget proposal for fiscal 2023, released by Governor Newsom in his “May Revise”, reflects the continued economic and revenue rebound from the pandemic and continues the state’s policy of prudently allocating higher available revenue to maintaining budgetary resilience while also increasing programmatic spending, says Fitch Ratings.

The state now projects fiscal 2022 revenues will be $41 billion (23%) higher than the June 2021 enacted budget estimate, with revenues well above pre-pandemic levels. General fund revenues, prior to transfers, are forecast to remain flat at $223 billion in fiscal 2023, but $25 billion (13%) higher than the estimate used in the Governor's January 2022 budget proposal. This exceptional growth, especially in the current year, comes despite the war in Ukraine and related economic sanctions on Russia, as well as ongoing supply chain disruptions, all of which contribute to the tempering of growth in the outyear revenue forecast.

The state attributes the strong revenue performance to a number of factors, including underlying economic growth with the state having passed its pre-pandemic GDP level in the first quarter of 2021 and the continued strength of earnings and stock market performance that benefit higher-wage taxpayers. It also reflects the impact of inflation on sales and income tax revenues as they are not inflation-adjusted.

While the forecast pre-dates the recent stock market retraction and incorporates record high capital gains in the current year, it assumes stock market growth will be weaker through the forecast period, accompanied by a decline in capital gains realizations and lower related taxes. The requirement to transfer capital gains-related tax revenues above 8% of general fund revenues not needed to fund Proposition 98 education spending to the budget stabilization fund and to debt repayment dampens the impact of capital gains volatility on general fund operations.

Although the state's economic outlook assumes continued growth and recovery, it has been slightly downgraded relative to its earlier forecast due to the greater economic uncertainty. The economic assumptions underlying the governor's "May Revise" are in line with Fitch's economic outlook for the U.S., with the state assuming 3% real national GDP growth in 2022.

As has been the state's practice, the governor takes a fairly conservative approach to using increased revenue by limiting growth in ongoing spending, rebuilding reserves, and paying down long-term liabilities. The revised budget proposal adds to the rainy day fund (Budget Stabilization Fund, BSA), bringing its total to over $23 billion, which is considered full funding at 10% of revenues and allocates $10.4 billion to other operating reserves.

The proposal assumes that 94% of the $49 billion discretionary surplus (the surplus not required to be spent on education due to proposition 98) will be applied to one-time expenditures focused on direct relief to taxpayers, investments in infrastructure, and COVID-related emergency spending. The budget also proposes using $6.2 billion in one-time funds to refund general obligation bonds and substituting up to $2.7 billion in expected appropriation-backed debt issuance with pay-as-you-go financing. It applies $3.9 billion in supplemental payments to reduce retirement liabilities (required under Proposition 2 and above the actuarial requirement).

The budget as initially proposed in January and revised in May provided approximately a $3 billion increase in ongoing spending, including to expand access to healthcare, address extreme weather, invest in public safety, and combat homelessness. Even with these increases, the multi-year forecast, which incorporates an added inflation adjustment beginning in 2023-2024, is structurally balanced.

Fitch anticipates details of the enacted budget will vary from the governor's plan; but, as in recent years, the general approach of limited recurring spending growth, focus on one-time actions, and restoring resilience will likely carry through.

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Texas Law Forces Banks to do Business With Gun Manufacturers.

If you want to do business in Texas, you have to be pro-gun

I keep telling myself that it can't get any worse in Texas. And yet somehow, it always does.

After the recent massacre in Uvalde, Texas, companies didn't issue policy statements that they would no longer do business with the firearms industry like they did after the Parkland massacre.

Why? Texas S.B. 19, passed in September 2021 also known as a FIND law (firearm industry nondiscriminatory legislation).

Continue reading.

medium.com

by Caren White

May 30, 2022

California's $98 Billion Surplus Comes as Warning Signs Loom.

- **Booming stocks, profits have given way to losses, volatility**
- **Newsom, seeking re-election, vows $18 billion inflation relief**

Wall Street's market turmoil is exposing the pitfalls California faces for banking on the investment fortunes of the state's wealthiest residents to fill its coffers.

While capital gains from booming stocks helped the most populous US state to amass a record $97.5 billion budget surplus — about half of which Governor Gavin Newsom says is available to spend for any purpose — the S&P 500 and the Nasdaq Composite are off abut 17% and 28% this year in reaction to rising inflation, monetary tightening and a land war in Europe.

The stock declines and corresponding concerns of a US recession raise the prospect that the spigot of wealth will soon slow in California, long prone to booms and crippling deficits because of the sensitivity of its revenue to markets. Municipal-bond analysts and the legislature's adviser would like to see more caution in the spending plan that lawmakers must approve by June 15.

Continue reading.

Bloomberg Politics

By Romy Varghese

May 25, 2022

Lessons for Us All from California's Evaporating Billions.

Rising interest rates have triggered substantial market losses from Golden State treasurers' untimely investments of idle cash. It's time for reforms wherever similar portfolios are now bleeding red ink.

Inflation and the Federal Reserve's new regime of monetary tightening have brought a perfect storm to a half-dozen of California's most prominent public treasurers. Their cash management investment portfolios have collectively lost $5 billion of market value in this fiscal year. That total is three times the losses suffered by Orange County in the 1994 investment debacle that took it into bankruptcy.

This time, the consequences of unrealized investment losses are unlikely to spawn that kind of financial crisis, but this episode does require a rethinking of several practices in public-sector cash management — not just in California, but nationwide.

It's a saga about how business-as-usual has backfired, so that's where this analysis begins. Many of these arrangements are also familiar to local treasurers and cash managers outside the Golden State, including in Arizona, Colorado, Florida, Michigan, New York, Nevada, Ohio, Oregon, Texas, Virginia and Washington state.

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GOVERNING

OPINION | May 24, 2022 • Girard Miller

What Federal Government Gave to Illinois in Lower Interest Cost from Credit Upgrades It Has Already Taken Away – Wirepoints

Upgrades for states from credit agencies are usually nice because they result in lower interest costs the next time the state borrows money.

But they mean nothing when the same forces that caused the upgrades spike up interest costs for other reasons.

So it is for Illinois. What the federal government hath given the federal government hath taken away.

Illinois' new bond offering says it all. Whatever benefit Illinois got from credit upgrades, which resulted largely from federal largesse, has been more than cancelled out by higher rates caused by that very largesse.

The facts are in The Bond Buyer, which is the leading journal for the municipal finance trade, which reported on Illinois's latest bond offering. This month, Illinois priced its new $1.64 billion of general obligation bonds. The true interest cost on the overall deal was 4.64%, says The Bond Buyer.

That's far higher than Illinois and other municipal bonds yielded over the past few years or even at the start of the year. Illinois' 10-year bond was trading at the start of the year at 1.67% yield, according to the Bond Buyer, but soared over the course of the year to 4.40% last week. The "spread" for Illinois bonds has worsened this year, too. That' how much the state's municipal bond rates exceed Treasury Bill rates. It started the year around 0.65% but is now over 1.2%.

How could that be? Illinois has received multiple credit upgrades over the past 11 months, which Illinois Gov. JB Pritzker and Comptroller Susanna Mendoza proudly remind us about most every week.

The answer isn't complicated.

The federal government showered cash excessively and indiscriminately on Illinois, its municipalities, other states, their municipalities and the economy in general over the last two years, all under the guise of COVID relief. Total federal "pandemic stimulus" has exceeded $10 trillion with more still to be disbursed. Illinois got nearly $200 billion, including $11 billion that went directly to state government. More importantly, Illinois tax receipts have surged, thanks mostly to the other $189 billion of stimulus.

That put Illinois bonds at less risk of near term default, thereby earning the credit upgrades.

But what's other the result of a federal cash gusher like that?

Inflation, which is now running at a 40-year high of over 8%. Other matters are contributing to inflation, including Ukraine and supply chain problems. Unquestionably, however, the massive federal stimulus is a primary culprit.

And what's the consequence of inflation?

Higher interest rates. Bond buyers demand higher rates because they want to be to be compensated for their inflation loss, and the Federal Reserve Board has pushed rates higher to try to fight inflation. Both of those forces are at work. All interest rates are up sharply this year. The benchmark 10-year U.S. Treasury Bill rate is up by over 50% this year. Most other borrowing costs, including municipal bonds across the nation, are up still more.

What will happen to credit ratings when the federal cash runs out?

The Volcker Alliance, a nonprofit group that promotes responsible government spending, issued a report last month singling out three states that are among the most vulnerable for budget stress. They are Illinois, California and Texas. "The problem is that they've been using a one-time surge of money from the federal government to pay for long-term expenses, fiscal experts warned Wednesday," as reported here. "The sobering warning comes even as states are flush with cash, thanks to strong consumer spending and low unemployment."

The conclusion should be clear. Since nobody can name any reforms or structural budget changes, Illinois' credit upgrades did not result from something the state did. They resulted, instead, from the same force now driving up interest costs for everybody.

That force was reckless federal spending, which was cheered on by Illinois' ruling class. The consequences have been more severe than the benefits. Federal fiscal and monetary policy over the past two years have made an appalling mess of our economy, and the effects on Illinois bonds are an example.

Wirepoints

By: Mark Glennon

May 27, 20223

*Mark Glennon is the founder of Wirepoints.

Texas Forces Companies to Be Neutral on Guns, or Lose Business.

• Law seeks to protect gun retailers from 'discrimination'
• Denies work to companies that cut ties with firearms industry

To keep doing business with Texas, companies will effectively have to take a vow of neutrality if the latest school-shooting massacre sets off another nationwide furor over gun control.

That's because in June 2021, flanked by Republican lawmakers and officials from the National Rifle Association, Governor Greg Abbott signed a state law that gives firearm makers, retailers and industry groups a special protection, one that relies on language usually reserved to shield people from racism, sexism, ageism or other forms of prejudice.

As a result, companies signing contracts with government agencies there — from school districts and cities to Texas itself — must verify they don't "discriminate" against the industry, seeking to force them to ignore any calls to cut their business ties.

The unusual provision, which has since inspired legislation in other Republican-led states, shows how much power the gun lobby has wielded in the nation's statehouses to fend off any efforts to curtail access to firearms in the wake of mass shootings. The latest occurred Tuesday at an elementary school in Uvalde, Texas, where a gunman killed 19 students and two teachers in the deadliest school shooting since the massacre at Sandy Hook Elementary School in Connecticut a decade ago.

The Texas shooting, which followed a racist attack at grocery store in Buffalo, New York, has reignited the debate over gun control, with President Joe Biden saying it's time to ask when the nation is "going to stand up to the gun lobby."

But such calls have been met with little success before. In fact, as legislative efforts failed in Washington, the gun industry has been successful in state capitols at fending off new regulations — or, in the case of Texas, finding ways to even increase its might.

"Texas has pro-gun legislation which clearly makes a statement at ensuring that the firearms industry is well protected," said Janice Iwama, a professor at American University, who studies the impact of gun legislation.

The National Shooting Sports Foundation, a trade group based in Newtown, Connecticut, has been encouraging other states to enact legislation like Texas', contending that companies in the industry are being denied services by banks. Lawmakers in Oklahoma and Louisiana have advanced similar bills, and additional measures have been introduced elsewhere.

The foundation declined to comment Wednesday, citing respect for the victims of Tuesday's shooting. Spokespeople for Governor Abbott didn't immediately respond to requests for comment.

The Texas law has already cast ripples across Wall Street, where Bank of America Corp., JPMorgan Chase & Co., and Goldman Sachs Group Inc. had been curtailing some ties to gun companies, including by not lending to those that make military-style weapons for civilian use. Citigroup Inc. had also put in place restrictions for retailers that it works with.

The Texas bill requires any public contract valued at or more than $100,000 to include a provision that states the company does not and will not discriminate against a firearm entity or trade association.

For months, lawyers and bankers in Texas have complained in private about the vague nature of the law and the difficulty, if not impossibility, of defining how a bank could be discriminating against a firearms entity.

That led Bank of America, JPMorgan, and Goldman to stop underwriting most municipal-bond deals in Texas as they evaluated it, though Citigroup returned to the market last year. JPMorgan cited the law's ambiguity when it previously announced that it wouldn't bid on most public contracts. The bank this month, however, took a first step to re-enter the market, with its law firm sending a letter to state officials defending the policy. In the meantime, major banks lost business to regional firms who weren't drawn into political debates like the industry's behemoths.

The law is also likely to touch the school district where Tuesday's slaying unfolded. Officials at the Uvalde Consolidated Independent School District recently considered adding a multi-million bond referendum to the November ballot for school improvement projects, according to local news reporting. To float that debt issue, any underwriter would have to promise not to curtail its gun-industry ties.

Bloomberg

By Danielle Moran and Amanda Albright

May 25, 2022

— With assistance by Hannah Levitt, and Jennifer Surane

Texas Republicans Roil Muni Market Again With Energy Law.

- **Issuers drop Wells Fargo, Morgan Stanley from bond deals**
- **Underwriters are in limbo as comptroller implements energy law**

Political contagion in Texas' $50-billion-a-year debt market is moving from guns to oil.

Big Wall Street banks were already shut out of Texas' municipal bond market, where the state and its cities raise money, for policies deemed unfriendly to the gun industry. Now an even larger group could see their public finance businesses hurt by legislation limiting contracts with firms that "boycott" the energy industry.

Banks like Morgan Stanley and Wells Fargo & Co. are losing out on municipal-bond deals or finding that they're essentially sidelined from transactions because of the uncertainty surrounding Texas Comptroller Glenn Hegar's effort to implement the law, which is meant to protect the state's oil and gas industry against the rise of environmental, social and governance standards.

Continue reading.

Bloomberg Politics

By Danielle Moran and Amanda Albright

May 23, 2022

The Texas Law That Has Banks Saying They Don't 'Discriminate' Against Guns.

Recent legislation requires firms to declare that they don't "discriminate" against the firearm industry — or risk losing lucrative business with the state.

Four years ago, JPMorgan Chase joined some of the nation's largest banks in publicly distancing itself from the firearm industry after a mass shooting in Parkland, Fla., left 17 people dead.

JPMorgan's relationships with gunmakers "have come down significantly and are pretty limited," Marianne Lake, then the bank's chief financial officer, told reporters. "We do have robust risk management practices and policies associated with this," she said.

The bank, along with Citigroup and other Wall Street firms, did not completely shut the door on gun companies.

Continue reading.

The New York Times

By Stephen Gandel

May 28, 2022

Florida's DeSantis Says Control of Disney District Will Likely Go to State.

Florida Governor Ron DeSantis said on Monday that control of Walt Disney Co.'s special government district would likely go to the state and not local governments if it's dissolved next year.

"After seeing them threatening to raise taxes on their citizens, we are not going to be in a situation where we're just going to be giving them, locally control," he said during a press briefing when asked about the possibility of property taxes rising as a result. "More likely that the state will simply assume control and make sure that we're able to impose the law and make sure we're collecting the taxes."

DeSantis signed legislation last month that will dissolve in 2023 the Reedy Creek district, where Disney's Florida amusement parks and hotels are based, unless it's explicitly reauthorized by the state's legislature. The new law emerged after a month-long feud between the Republican governor and Disney in which the entertainment giant criticized a law DeSantis backed that limits school instruction about gender identity and sexual orientation.

DeSantis said that he is working on proposals and will collaborate with the state legislature. While he didn't provide any concrete details, he said that Disney would be responsible for paying back the nearly $1 billion in municipal bonds issued by the special district.

"That debt will not end up going to any of these local governments," he said. "It's not going to go to the state government, either. It's going to absolutely be dealt with, with the taxpayers who are currently in that district."

State Takeover

The Florida governor made the comments amid ongoing concern by some residents that dissolving Disney's special district could lead to tax increases if municipalities have to take on the burden of the company's debt and provide additional services.

Reedy Creek is governed by a five-member board of supervisors, elected by local landowners. A state takeover could put control of the district, which provides water, sewer, power and other services to Disney World, in the hands of gubernatorial appointees. The district collected revenue of $306 million last year from taxes and user fees, according to its annual report.

While some of other special districts in the state that were affected by the legislation signed last month may be amended or re-authorized, DeSantis said Disney would not maintain control of the government.

"Obviously with Reedy Creek, the path forward is Disney will not control its own government in the state of Florida," he said. "They will pay their fair share of taxes, and they will be responsible for paying the debts. At the end of the day, all we're doing is putting them on a level playing field with all the other companies in Florida, making sure there's no special privileges, no special deals, but that debt will be honored."

Shares Down

DeSantis said that local taxes would not rise as a result, as the local governments will not see any additional liabilities.

"We're working on some proposals," DeSantis said. "I think we've got it pretty much what we want to do, but I'm going to work with the legislative leaders for, who are going to come in after the election to make sure that we're all in agreement."

Disney shares fell 1.2% to $106.04 at 1:47 p.m., extending its decline this year to 31.6%. Still, Disney reported last week that subscribers to its Disney+ streaming service beat Wall Street estimates and that the company more than doubled of its theme park revenue thanks to surging attendance. The results suggest that DeSantis' criticism of the company is not discouraging average Americans from using the company's products.

Bloomberg Politics

By Nathan Crooks

May 16, 2022

— *With assistance by Christopher Palmeri*

Why Disney's Special District Is Harder To Dissolve Than It Seems.

Florida Gov. Ron DeSantis signed a bill to dissolve a Disney special district, but now many wonder what this means for future debts and taxes.

In the latest political battle brewing in Florida, Gov. Ron DeSantis signed a bill revoking the Walt Disney Company's special district status, and he didn't waste time — it was signed just days after the legislation was introduced in late April.

The bill is widely seen as retaliation for the company taking an official stance against the governor's so-called "Don't Say Gay Bill."

"But then for Disney to come out and put a statement and say the bill should have never passed and that they are going to actively work to repeal it, I think, one: was fundamentally dishonest, but two: I think that crossed a line," DeSantis said.

But the bill has brought up questions about what exactly happens when a special district suddenly dissolves. Although there isn't a good precedent for this, a number of legal experts have suggested this may end up backfiring for the governor.

To explain why, let's go back to how this all started.

Walt Disney first began buying up marshland in Central Florida in the 1960s. The company quietly bought the acres through shell corporations and cash transactions, because if news broke that Disney was making a park, the price of land would skyrocket. By the time the secret got out, Walt Disney was meeting with legislators and business leaders to secure tax breaks, other benefits, and of course, the special district status.

In 1967, Disney got the state to approve of the Reedy Creek Improvement District, and the agreement was made "in perpetuity." Disney would still pay its state and federal taxes, but it would also fund and run its own government of Reedy Creek. It did that by levying its own taxes to pay for services like power, water, roads and fire protection as they built the parks.

And that continues today: Tax revenue from Disney properties fund Reedy Creek's services like waste management and recycling or its own emergency services.

A key part of this structure is that the government can issue its own municipal bonds to pay for infrastructure projects. They're essentially loans from Disney's many investors, and because municipal bonds are usually exempt from federal taxes, they're often cheaper to borrow. And Disney is continually paying some back: $60 million of the district's $170 million budget last year went to debt payments on bonds that were issued to fund projects like roads and a pedestrian bridge.

It's worth noting there are actually tens of thousands of special districts in the country. Disney is unusual because it's the only taxpayer in the entire district, and Disney is the largest employer in a state that is pretty dependent on tourism. It wields a unique "Walt Disney World is the economic engine that drives Central Florida and indeed much of Florida's tourism business," Lori Rozsa, reporter with the Washington Post, said. "Walt Disney World has been a huge influencer of politics in Florida since its inception, clearly since they got this treatment that they were able to get pretty much what they wanted from the legislature. A lot of local politicians and some people in Tallahassee call them bullies because they have a legion of lobbyists."

Now, the big question is: What will actually happen when this powerful mini-government suddenly dissolves?

The state was able to circumvent that "in perpetuity" requirement by targeting any special districts made *before* the year the state constitution was ratified.

"… But they also will be considering termination of all special districts that were enacted in Florida prior to 1968, and that includes the Reedy Creek Improvement District," DeSantis said.

So, while this move might be legal, the bill doesn't address those pesky municipal bonds mentioned earlier — since bonds are debts, and someone always has to pay debts.

State law dictates that when a special district is dissolved, paying its debt falls to the area's local government. For Reedy Creek, there are four local governments that would get the burden.

The state has one year to figure out where those debts are going, since the law goes into effect in June 2023. Though DeSantis insists Disney will eat the cost, the bill doesn't detail how, and it's unclear what legislative options he has left.

"It's clear that this was not thought through on the legislative level either by the governor's office and certainly not by the legislators," Rozsa said. "They barely debated it. Disney has the strong hand here. Ready Creek Improvement District has a strong hand."

Taxes in the surrounding counties could rise up to 25%. Now all eyes are on DeSantis to see if this deal may cement his status as a rising GOP star or politically backfire for his re-election campaign later this year.

By Newsy Staff

May 11, 2022

[Fitch: Public Power Credit Unaffected by Glen Canyon Dam Drought Measures]

Fitch Ratings-Austin/New York-13 May 2022: The US Bureau of Reclamation (BOR) recently announced urgent drought response actions at Lake Powell, which are designed to preserve water levels and power generation at the Glen Canyon Dam, the second-largest hydroelectric power source in the US southwest. The announced actions will preserve minimum levels of power supply from this low-cost, carbon-free hydroelectric resource for regional public power utilities in the short term. Still, consensus is needed among the entities that rely on Lake Powell for water and power to address declining hydrology in the Colorado River Basin if power generation is to be sustained longer term, says Fitch Ratings.

Reduced hydroelectric output, as a result of the Colorado River Basin drought, is driving replacement power costs higher for purchasing utilities but the increases are manageable. The BOR increased project energy and capacity rates charged to purchasing utilities by 8% and reduced available allocations in December 2021, given the region's increasingly severe drought conditions. The BOR indicated it would no longer purchase power in order to firm deliveries to purchasing utilities, given increasing market energy prices in the western US.

Utilities rated by Fitch are absorbing the incremental cost caused by reduced supply in 2022 and are replacing the lower generation with additional purchased power, increased output from other owned generation, or reduced off-system (optional, non-customer) sales. To the extent the project's power supply remains curtailed, replacement power costs for Fitch-rated public power issuers should continue to be recovered through rate adjustments.

The Colorado River Storage Project (CRSP), which includes the 1,320MW Glen Canyon Dam power plant, provides cost-based energy supply at typically below market prices to 130 public entity customers: 53 native American tribes, 60 municipalities, cooperatives and irrigation districts, and 17 other entities. Four Fitch-rated utilities receive between 5% and 18% of their total power supply from the project: Colorado Springs, Colorado; Platte River Power Authority, Colorado; Tri-State Generation and Transmission Association, Inc., Colorado; and the Utah Municipal Power Agency, Utah. Two additional rated systems, Fort Collins, Colorado and Provo, Utah, purchase power from the above-named utilities.

The Glen Canyon Dam constitutes only one of multiple generation sources for the Fitch-rated utilities, limiting the credit effect of generation shortages, even in the event of full cessation of power from the facility. However, the reduction of low-cost power supply from Glen Canyon is just one example of the sector's broader operating cost pressures, which are highlighted in Fitch Ratings 2022 Outlook: U.S. Public Power and Electric Cooperatives. Additionally, lower generation from Glen Canyon reduces carbon-free electricity as the sector is pursuing cleaner, non-emitting electric sources.

Glen Canyon Dam, Lake Powell, and the Glen Canyon Dam power plant together form the largest project of the CRSP and are collectively owned and managed by the BOR. The project controls water releases from the Upper Colorado River Basin to the Lower Basin and generates hydroelectric power, accounting for approximately 75% of CRSP's generating capacity.

The entire Colorado River Basin is experiencing progressively worse drought conditions since 2000. Lake Powell's water surface elevation is 3,523 feet, the lowest since the lake was originally filled in the 1960s. The lowest elevation at which Lake Powell can generate hydropower is 3,490 feet.

The BOR took unprecedented action to send more flow into Lake Powell from upstream reservoirs and release less water downstream. The two actions are estimated to increase water levels by approximately 16 feet, protecting the sole water supply to local communities and the BOR's operational ability to transfer water from the upper Colorado River Basin and preserve hydroelectric generation.

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[Florida Governor Ron DeSantis Says the State Will Likely Take Control of Disney's Reedy Creek Improvement District.]

At an event in Sanford this morning, Florida Governor Ron DeSantis said that the state would likely take control of Disney's Reedy Creek Improvement District.

Since the Governor signed the bill dissolving Reedy Creek Improvement District last month, many questions have been raised about how dissolving the district will be achieved in practice and if any debt will be passed onto the local Orange and Osceola counties.

He said today, "The path forward is, Disney will not control its own government in the state of Florida. Disney will have to follow the same laws that every other company has to follow in the state of Florida. They will pay their share of taxes, and they will be responsible for paying the debts."

Despite his comments this morning, DeSantis has still not laid out a clear plan to dissolve Reedy Creek. He said today that his plan would be presented to the legislature after the November 2022 elections, which leaves very little time before the June 1 2023 termination date.

The creation of the Reedy Creek Improvement District in 1967 allowed Disney the luxury of establishing its own independent government that handles many aspects of the Walt Disney World property, including emergency services, infrastructure, and construction permitting.

These latest developments follow escalating tensions between DeSantis and Disney CEO Bob Chapek regarding Disney's opposition to Florida's HB 1557, also known as the 'Don't Say Gay' bill.

Disney's Bob Chapek has yet to make any public comments on the situation regarding Reedy Creek Improvement District.

Posted: Monday May 16, 2022 1:04pm ET by WDWMAGIC Staff

Extension for Issuance of 30-Year Municipal Bonds in Connecticut.

During the 2022 Legislative Session, the General Assembly passed, and the Governor signed into law, HB 5506, commonly referred to as the Implementer (the "New Law").

For municipalities issuing bonds and refunding bonds, prior to July 1, 2022, the law allowed a term of up to 30 years for bonds and refunding bonds issued from July 1, 2017 to July 1, 2022. The New Law now makes the 30-year authorization permanent for bonds, and the New Law extends the expiration by five years, until July 1, 2027, for refunding bonds. Municipalities may issue refunding bonds with a maturity of up to 30 years only if their legislative bodies adopt a resolution to do so by a two-thirds vote.

Please note that the Connecticut statutory provisions discussed above do not address the potential tax implications related to issuing 30-year bonds or refunding bonds. Municipal issuers should consult with the professionals that assist them with their bond issuances. If you have any questions about this alert, please feel free to contact any of Pullman & Comley's Public Finance attorneys.

DeSantis Culture War With Disney Sees Lawsuit by Florida Trio Thrown Out.

A federal judge threw out a lawsuit by three Florida residents who claim Governor Ron DeSantis trampled on Walt Disney Co.'s freedom of speech, finding numerous holes in their filing and ruling the company can fight its own battle.

The entertainment giant enjoys privileges through a special municipal district that encompasses Walt Disney World and its resorts, including access to the lower-cost municipal debt market for certain projects. The three residents alleged that the governor's move to dissolve the district as punishment in a political fight violated the company's First Amendment rights.

But they failed to show that Disney "faces any hindrance" in making its own case if it chooses to, the judge said Tuesday.

DeSantis, a Republican and potential 2024 presidential candidate, signed a law in April that will dissolve the Reedy Creek Improvement District unless there is further legislative action, after Disney announced its opposition to the state's new parental rights law that restricts classroom instruction on sexual orientation and gender identity.

Because the law's provisions aren't in effect yet, U.S. District Judge Cecilia Altonaga added that the claims aren't ready for litigation and adjudication. And she found the law wouldn't affect the plaintiffs anyway, who therefore lack standing to sue.

"They do not allege direct harm as a result of the challenged law, and they do not plausibly allege any credible threat of direct harm in the future," she wrote.

While they said in their suit that they feared they would have to assume the tax burden that Disney shoulders under its special tax status, the judge shrugged off the claim.

"That indirect and highly speculative alleged injury cannot support federal jurisdiction," she wrote.

The case is Michael Foronda v. Ron DeSantis, 22-cv-21376, U.S. District Court, Southern District of Florida (Miami).

Bloomberg

By Katia Porzecanski

May 11, 2022

— With assistance by Danielle Moran

JPMorgan Made Surprise Bid to Underwrite Mega Texas Muni Deal.

For months, JPMorgan Chase & Co. has been largely absent from the Texas municipal-bond market because of a new GOP state law targeting Wall Street banks for their gun policies.

But the bank raised its hand when a Texas financing authority put out a request for proposals last month for a $3.4 billion muni deal it's aiming to sell by August to cover costs incurred by utilities during a deadly 2021 winter storm. The offering is poised to be the largest muni sale ever in the state.

JPMorgan was one of the roughly 40 banks that submitted a proposal, according to Lee Deviney, executive director of the Texas Public Finance Authority, which formed the entity that's selling the bonds.

The New York-based bank didn't make the cut Friday when the Texas Natural Gas Securitization Finance Corp. named the underwriters. Some 30 firms didn't get picked, Deviney said. Jefferies Financial Group Inc. was tapped as the senior manager, with Morgan Stanley and Hilltop Securities as co-managers.

Patricia Wexler, a spokesperson for JPMorgan, declined to comment.

JPMorgan hasn't underwritten any municipal-bond sales by the state or its cities since the law, known as Senate Bill 19, went into effect in September, according to data compiled by Bloomberg. It has underwritten two small Texas transactions — both under $20 million — since the measure took effect. Those deals were sold by nonprofit industrial development corporations, a category that appears to be outside the the scope of the law, which targets governmental entities.

The GOP law doesn't allow governments to enter into contracts of over $100,000 with companies unless they provide a written verification that they don't "discriminate" against firearms entities.

In September, JPMorgan told Bloomberg News its business practices should permit the bank to certify compliance with the law. But it said the legal risk of the "ambiguous law" prevented it from bidding on most transactions with Texas public entities.

It's unclear whether the bank has now certified compliance with the law, but its response to the request for proposal suggests it may have. Banks submitting proposals for the storm-bond transaction had to certify they're in compliance with Texas laws, including Senate Bill 19, according to the request for proposals.

Bloomberg Markets

By Amanda Albright and Danielle Moran

May 6, 2022

Florida Taxpayers Sue DeSantis Over Disney Special District Repeal.

Florida residents near Walt Disney World filed a lawsuit claiming they will be on the hook to pay $1 billion in Disney's bond debt if the special district is abolished.

Florida residents in counties surrounding Disney World filed a lawsuit against Governor Ron DeSantis on May 3, alleging the repeal of Walt Disney's special district would saddle taxpayers with $1 billion worth of bond debt.

DeSantis signed off on abolishing the Disney district on April 22 seemingly in retaliation of Disney CEO Bob Chapek slamming Florida's passage of the "Don't Say Gay" law. Residents of the surrounding Osceola counties now claim DeSantis violated their rights and interest when dissolving the Disney tax breaks and Reedy Creek Improvement District. They seek to block the law.

"It is without question that Defendant Governor DeSantis intended to punish Disney for a 1st Amendment protected ground of free speech," the lawsuit states, via The Hollywood Reporter. "Defendant's violation of Disney's 1st Amendment rights directly resulted in a violation of Plaintiffs' 14th Amendment rights to due process of law."

Continue reading.

IndieWire

by Samantha Bergeson

May 4, 2022 3:05 pm

American Dream Mega Mall Lost $60 Million Last Year.

- **Pandemic stunts New Jersey mall's revenue from attractions**
- **Mall had $173 million revenue and $232 million expenses**

American Dream, the struggling megamall near the New Jersey Turnpike, lost about $60 million in 2021, according to a securities filing.

The 3.5-million-square-foot shopping and entertainment complex, home to an indoor ski slope, amusement park and water park, generated about $173 million in revenue, mainly from attractions and rent. Expenses totaled $232.4 million, according to a three-page unaudited financial report.

American Dream was walloped by the pandemic as successive waves of the coronavirus discouraged shoppers and tourists. The mall's ski hill was hit by a fire in September that also disrupted dozens of shops and eateries. The mall was 80% leased as of April 1, according to a separate filing. The ski slope plans to reopen Memorial Day weekend.

Mall owner Triple Five Group is seeking a four-year extension to repay $1.7 billion in construction financing, Bloomberg News has reported.

American Dream last year had sales of about $305 million, or 15% of the $2 billion that a 2017 forecast projected it would bring in during its first year of operations. In addition to the construction loans, the mall has about $290 million of sales-tax supported municipal-bonds and $800 million of municipal-debt backed by payments in lieu of property taxes.

The mall reported $2.6 billion in total liabilities and about $500 million in equity.

Bloomberg Markets

By Martin Z Braun

May 3, 2022

[Harvard Issues First-Ever Green Bonds to Finance Campus Construction Projects.]

Harvard issued its first-ever green bonds — debt instruments that align with international sustainability standards — earlier this month.

The $250 million bonds will finance and refinance projects including Harvard's newly-constructed Science and Engineering Complex, estimated to cost around $1 billion, along with the ongoing renewal of Adams House and renovation of Soldiers Field Park, which will cost at least $600 million combined.

The borrowing marks the first time an outside firm has verified the University's compliance with the 2021 Green Bond Principles, a global framework that encourages environmental sustainability and development in debt capital markets.

The principles, set by the International Capital Market Association, "outline best practices when issuing bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market," according to ICMA's website.

Sustainable measures for capital projects could include renewable energy, green equipment, energy-efficient transportation systems, and the usage of environmentally-friendly building materials.

The 544,000-square-foot SEC, which opened in fall 2021, received two environmental distinctions: the Leadership in Energy and Environmental Design platinum status — the highest distinction offered by LEED — and the Living Building Challenge Petal certification. To attain Petal certification, the SEC was monitored for a year and had to pass three sustainability performance areas, or "petals."

University spokesperson Jason A. Newton wrote that the borrowing is in line with Harvard's own sustainability goals.

“The purpose of the bond offering includes support for maintenance and investment in Harvard’s physical campus, including creating capacity for initiatives related to Harvard’s Climate Action Plan” he wrote.

Harvard’s climate action plan includes targets for campus operations to be fossil-fuel neutral by 2026 and fossil-fuel free by 2050. The University, however, has yet to release updated environmental targets after its first sustainability plan — announced in 2014 — lapsed last year.

The tax-exempt, 10-year bonds were verified by Kestrel Verifiers — a company that conducts external reviews for public finance projects — on April 6 and subsequently issued on April 20.

The bonds will close on May 17, 2022.

The Harvard Crimson

By Dekyi T. Tsotsong and Eric Yan

Municipal-Bond Dealer Hired English and Philosophy Majors.

Richard J. Franke, who has died at age 90, specialized in tax-exempt securities as CEO of Nuveen and founded a humanities festival in Chicago

Richard J. Franke was a history major at Yale before earning his M.B.A. degree at Harvard in 1957.

Later, as chief executive of John Nuveen & Co., a Chicago-based fund manager specializing in tax-exempt bonds, he considered that history degree at least as important as the business training. He was more apt to quote Sophocles or Montaigne than any financial guru. He hired people with degrees in philosophy, English or theology as well as those with financial skills.

The humanities, Mr. Franke argued, were the best way to learn communication and critical-thinking skills, understand other people, and stay open to adopting new ideas as new information emerged.

“Business leaders with a background in the humanities have a deeper understanding of themselves and others,” he said in a 2000 speech.

Mr. Franke spread his secular gospel partly by founding the Chicago Humanities Festival, which since 1990 has used concerts, films and other performances to draw people into lectures and discussions they might otherwise skip. This year’s festival includes the filmmaker John Waters and the comedian Sarah Cooper.

As a CEO, he declined to serve on other companies’ boards and instead devoted himself to nonprofits, including the Lyric Opera of Chicago, where he believed he could add more value. He led a book-discussion group for more than 35 years.

Mr. Franke died April 15 at a hospital in New York. He was 90 years old and had recently broken a hip.

Richard James Franke (pronounced Frank-e) was born June 23, 1931, and grew up in Springfield, Ill. His father, who left school after the seventh grade, was a dry cleaner and during the Depression provided startup capital for jobless people who wanted to set up small businesses.

In 1949, Mr. Franke boarded a train for the trip to New Haven, Conn., where he enrolled at Yale. At the train station, he recalled, his father said: “Rich, I have taught you all I know. Now is time for you to go off on your own.”

Yale was a cultural shock for a Midwesterner whose parents hadn’t gone to college. The prep-school set teased him for wearing the wrong clothes. Still, the liberal-arts education he got there enriched his entire life.

After graduating from Yale, he served in the Army, which posted him in Colorado. He worked as a mailroom intern for Nuveen in 1955 and returned there after earning his M.B.A. In 1958, he married Barbara Easley, whom he had known since high school.

Early in his career at Nuveen, he traveled the South to pitch local officials on the advantages of using tax-exempt bonds to finance infrastructure. “I had plenty of ambition and painfully few verbal skills,” he wrote in a memoir prepared for his grandchildren. “Slowly, I became better at presentation and even recruited a respectable amount of business for our firm.”

In 1969, he joined Nuveen’s board. To show his commitment, he borrowed $100,000 to buy shares in the company.

The timing could hardly have been worse. Nuveen, founded in 1898, was stuck with too many bonds as prices dropped. The value of his stock was wiped out, and Nuveen averted a collapse only by getting an emergency injection of cash from Investors Diversified Services Inc. As the new owner, IDS ousted most of the top executives but kept two, Frank Wendt as chief executive and Mr. Franke as executive vice president, to sort out the mess.

IDS sold Nuveen to St. Paul Cos., an insurer, in 1974, and Mr. Franke rose to chief executive. Nuveen now is owned by Teachers Insurance and Annuity Association of America, or TIAA.

The market for bonds was difficult in the 1970s as soaring interest rates reduced prices for the securities. Even so, Nuveen returned to profitability and was in a good position to benefit from the long-term fall in interest rates that began in the early 1980s. The firm thrived as a manager of municipal-bond funds. Under Mr. Franke, Nuveen stopped making markets in U.S. Treasury bonds in 1980 to focus on municipal bonds.

A narrow focus on tax-exempt bonds served Nuveen well for years but by the mid-1990s was sometimes seen as a liability. After Mr. Franke retired as CEO in 1996, Nuveen diversified into equity funds.

Mr. Franke moved to New Haven, partly to maintain his connections with Yale. He was a fellow of the Yale Corporation for 12 years and was a life trustee at the University of Chicago. He wrote a 521-page book, “Cut From Whole Cloth,” on his family’s history.

“You don’t retire,” he wrote. “You do something different.”

Though he had spent a career in the bond market, he shunned credit cards and other types of borrowing in his personal life and refused to embrace online banking.

Mr. Franke’s survivors include his wife of 64 years, Barbara Franke, two daughters and two grandchildren. In the memoir he wrote for his grandchildren, he recommended a rich diet of reading, including biographies and obituaries.

For leaders of book-discussion groups, he advised holding sessions somewhere other than in members' homes. "When we experimented with meetings in our homes, we found we had too much conversation about the house in which we met and the snacks we ate, when we were supposed to be discussing literature," he wrote.

The Wall Street Journal

By James R. Hagerty

Apr. 28, 2022 10:01 am ET

[A Wisconsin Town With Contaminated Drinking Water Must Decide Its Future.]

Residents of tiny Peshtigo consider joining nearby city to fix water supply, which is polluted with chemicals known as PFAS

PESHTIGO, Wis.—For decades, a fire-technology company next to this town on the shore of Green Bay set steel structures and other props ablaze and trained firefighters from around the world to put them out with a special foam.

Today, chemicals from that foam are found in private water wells several miles away and in creeks that flow into the bay, and leaders of the town of Peshtigo are in a bitter fight with the company about how to get safe drinking water to residents.

Cindy Boyle, chairwoman of the town board, said it was infuriating that her family has had to drink and cook with bottled water for the past four years and that she wakes up in the middle of the night thinking about the contamination under her town. "If we could just get permanent safe water at least that part could stop," said Ms. Boyle, 50 years old.

Continue reading.

The Wall Street Journal

By Kris Maher

Apr. 24, 2022 10:00 am ET

[Texas Stumbles In Its Effort to Punish Green Financial Firms.]

For years, fossil fuel producing states have watched investors shy away from companies causing the climate crisis. Last year, one state decided to push back.

Texas passed a law treating financial companies shunning fossil fuels the same way it treated companies that did business with Iran, or Sudan: boycott them.

"This bill sent a strong message to both Washington and Wall Street that if you boycott Texas energy, then Texas will boycott you," Texas Representative Phil King said from the floor of the Texas legislature during deliberations on the bill, SB 13, last year.

[Continue reading.](#)

mainepublic.org

By Mario Alejandro Ariza, Mose Buchele

Published April 29, 2022 at 5:01 AM EDT

Florida's $1 Billion Disney Question.

When Florida Republicans approved a bill to strip Walt Disney Co. DIS -3.17% of its special taxing privileges in April amid controversy over how gender and sexuality are taught in schools, they failed to address a key question: Who is responsible for paying back nearly $1 billion in municipal debt used to build roads, walkways and other infrastructure around Disney World?

Florida law dictates the bondholders must be paid even if Disney's special taxing district, known as Reedy Creek, is dissolved. A separate law creating Reedy Creek promised bondholders the state wouldn't interfere with its tax collections. One of the bill's sponsors is now considering re-establishing a watered-down version of Reedy Creek to unwind the legal mess.

Those caught up in the fight include municipal bond investors, firefighters, and the $210 billion global media and marketing enterprise behind Star Wars, the Avengers and ESPN.

Prices have dropped on many of the bonds, which sit in mutual funds managed by Goldman Sachs Asset Management, AllianceBernstein and other firms. Reedy Creek bonds maturing in 2028 traded at 87.5 cents on the dollar Thursday and Friday, down from about 100 cents in January, according to Municipal Securities Rulemaking Board data. Two major ratings firms have flagged the bonds for potential downgrade, saying it isn't exactly clear who owes investors their money.

"It's mere speculation at this point," said Michael Rinaldi, head of U.S. local government ratings at Fitch Ratings. "We don't have any information."

A spokesperson for Gov. Ron DeSantis said a plan for Reedy Creek is being completed and could be made public within the next few weeks. Mr. DeSantis, a Republican, said in an interview with Fox News Thursday night that "the bonds will be paid by Disney."

The Reedy Creek Improvement District is a 40-square-mile area encompassing Disney's Orlando-area theme parks, hotels and resorts. Tens of thousands of such special districts exist across the U.S., typically run by local boards and formed at the behest of property owners who want to pay taxes beyond what they owe to the city or county for extra services such as mosquito abatement.

Reedy Creek is unusual in that almost all the property belongs to one taxpayer, Disney, which effectively funds and controls its own government. Reedy Creek operates outside area rules on building and zoning and uses tax revenue from Disney properties to run a local fire department and other services. About $60 million of the district's $170 million 2021 budget went to debt payments on bonds issued to finance roads and a pedestrian bridge, among other projects.

Created by Florida lawmakers more than 50 years ago at Disney's request, Reedy Creek was an easy target for Florida lawmakers unhappy with Disney over its opposition to Florida's Parental Rights in Education bill. Nicknamed "Don't Say Gay" by critics, the legislation approved in April prohibits classroom instruction on gender identity and sexual orientation for schoolchildren through grade three, and limits it for older students.

After Disney, under pressure from employees, vowed to push for the law's repeal, Florida lawmakers, at the urging of Mr. DeSantis, filed, heard and approved a bill dissolving Reedy Creek over a three-day period in mid-April. The dissolution is effective June 1, 2023. A Disney spokesperson declined to comment. A Reedy Creek spokesperson didn't respond to a phone call.

State law dictates that when a special district is dissolved, the responsibility for paying its debt falls to the area local government. In Reedy Creek's case, there are four: Orange County, which encompasses most of Reedy Creek, Osceola County and the cities of Bay Lake and Lake Buena Vista.

Reedy Creek said in a statement filed with the Municipal Securities Rulemaking Board, a self-regulatory organization governing the bond market, it "expects to explore its options while continuing its present operations." The statement also cited a 1967 legal promise to Reedy Creek bondholders that the state wouldn't alter the district's ability to collect taxes.

Florida Rep. Randy Fine, a Republican who sponsored the bill in the state's house of representatives, said he believes that obligation will no longer exist after the new law takes effect next year. He said a court or additional legislation could help determine how to divide the debt up among local governments. Still, he said, another option would be for lawmakers to re-establish a less-powerful version of the Reedy Creek Improvement District for the purpose of servicing the debt.

In that scenario, "there continues to be a Reedy Creek that continues to hold that and continues to pay it off," Mr. Fine said, but the legislature could withhold other powers the district currently has such as the ability to issue additional debt backed by a promise of repayment in state law.

Mr. DeSantis's office said in a statement when he signed the Reedy Creek bill that he didn't expect it to increase residents' taxes. The impact to local governments could extend well beyond having to take over debt payments, however.

Orange County Mayor Jerry Demings, a Democrat, said at a press conference while the bill was under consideration that Reedy Creek covers the cost of police, fire and 911 services in the district. Taking over those operations without additional revenue would be "catastrophic for our budget," he said. Osceola County said in a statement following the bill's passage that it is "evaluating any shifts in cost to Osceola."

Some municipal bond portfolio managers and analysts expressed concern at seeing partisan politics creep into the arcane world of debt repayment pledges.

Matt Freund, head of fixed-income strategies at Calamos Investments LLC, which holds a small share of a Reedy Creek bond issued in 2020, expressed confidence that the debt would be repaid.

"How the state of Florida's action impacts the broader municipal finance industry is yet to be seen," Mr. Freund said.

The Wall Street Journal

By Heather Gillers

May 1, 2022 8:00 am ET

DeSantis Signals More Disney Action After ‘First Step’

- **Florida governor signed law to end self-governing district**
- **Company, governor in dispute over law on teaching on gender**

Florida Governor Ron DeSantis suggested he may take more action to limit Walt Disney Co.’s ability to run its own affairs in the state.

DeSantis last week signed legislation that will dissolve the Reedy Creek Improvement District, where Disney operates its Walt Disney World Resort, unless it’s explicitly reauthorized. The company has been locked in a heated dispute with the Republican governor after it criticized a law he backed that limits school instruction about gender identity and sexual orientation.

“That was really the first step in what’s going to be a process to make sure that Disney should not run its own government,” DeSantis said at a press briefing on Monday.

DeSantis was responding to some who have suggested that Disney’s tax burden would be reduced if it loses its special district. While he didn’t give many other details, his remarks came as some critics, including officials in Orange County, where the bulk of Disney’s operations are based, have suggested that the entertainment giant could see tax savings by transferring the public services it provides to municipal governments.

“Trust me. Under no circumstances will Disney not pay its fair share of taxes when this is done,” DeSantis said.

DeSantis has said he isn’t targeting $578 million in credits Disney can use to reduce its state income taxes through 2040. His office has previously referred to those benefits as being available to anyone who applies and not Disney-specific.

DeSantis also rejected the idea that the company wouldn’t be on the hook for the nearly $1 billion in municipal debt Reedy Creek has outstanding.

“Under no circumstances will Disney be able to not pay its debts,” DeSantis said, without providing more details. “We will make sure of that. Do not worry about that.”

In a statement Friday, DeSantis’s office said it wasn’t “the understanding or expectation” that the law would result in any tax increases for Florida residents. It said that additional legislation would be proposed to “authorize additional special districts in a manner that ensures transparency and an even playing field under the law.”

Christina Pushaw, a spokesperson for DeSantis, said Monday that more details of the plan will be finalized in the “next couple of weeks.”

Disney has yet to comment on the legislation.

Randy Fine, the Republican state representative who sponsored the legislation, said there are a number of ways the Reedy Creek issue could be resolved. He said the debt associated with the district, as well as the services provided, could be passed along to local governments. The district could also be reauthorized in a way that makes it in line with current provisions of the state constitution.

“There are big discussions to be had over the next year in terms of what we do about it,” he said.

Bloomberg Politics

By Nathan Crooks and Christopher Palmeri

April 25, 2022

[Florida's $1 Billion Disney Question.]

Stripping Walt Disney Co. of its special taxing privileges leaves investors wondering who pays back almost $1 billion of municipal bonds

When Florida Republicans approved a bill to strip Walt Disney Co. DIS 1.68% of its special taxing privileges in April amid controversy over how gender and sexuality are taught in schools, they failed to address a key question: Who is responsible for paying back nearly $1 billion in municipal debt used to build roads, walkways and other infrastructure around Disney World?

Florida law dictates the bondholders must be paid even if Disney's special taxing district, known as Reedy Creek, is dissolved. A separate law creating Reedy Creek promised bondholders the state wouldn't interfere with its tax collections. One of the bill's sponsors is now considering re-establishing a watered-down version of Reedy Creek to unwind the legal mess.

Those caught up in the fight include municipal bond investors, firefighters, and the $210 billion global media and marketing enterprise behind Star Wars, the Avengers and ESPN.

Prices have dropped on many of the bonds, which sit in mutual funds managed by Goldman Sachs Asset Management, AllianceBernstein and other firms. Reedy Creek bonds maturing in 2028 traded at 87.5 cents on the dollar Thursday and Friday, down from about 100 cents in January, according to Municipal Securities Rulemaking Board data. Two major ratings firms have flagged the bonds for potential downgrade, saying it isn't exactly clear who owes investors their money."It's mere speculation at this point," said Michael Rinaldi, head of U.S. local government ratings at Fitch Ratings. "We don't have any information."

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The Wall Street Journal

By Heather Gillers

May 1, 2022

Disney Says Florida Can't Dissolve Special District Without Paying $1B Debt.

Disney is arguing that Florida cannot dissolve the special taxing district that allows Walt Disney World to oversee its property as a quasi-governmental agency since it said it would protect bond holders.

The special taxing district run by Disney, known as the Reedy Creek Improvement District, made the argument in a statement to the Municipal Securities Rulemaking Board on April 21.

It said in the statement that the Reedy Creek Act pledged not to alter its status unless all debts are paid off.

Continue reading.

THE HILL

BY KELSEY CAROLAN – 04/29/22 11:39 AM ET

DeSantis Says Disney Will Pay For $1 Billion Bond Debt.

Gov. Ron DeSantis responded to Disney's claim that Florida would have to pay $1 billion in bond to dissolve the Reedy Creek Improvement District.

The Walt Disney Co. has remained publicly silent since DeSantis signed a law last week dissolving the Reedy Creek Improvement District, but a letter to investors shows they're not going down without a fight.

Disney recently told investors the state would be unable to resolve the district without paying for the district's outstanding debt obligations of about $1 billion. In the meantime, the district is considering its options while conducting business as usual.

Continue reading.

wflx.com

By Victoria Lewis

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How Florida's Own Pledge to Disney's Special District Could Backfire.

Florida Republicans' efforts to strip Disney of its special self-government power over the company's opposition to the so-called "Don't Say Gay" law could backfire amid concerns of a large debt owed to the state.

Florida created Walt Disney World's special district in 1967, and the state pledged not to alter its status unless all debts owed to the state are paid off — a promise that could place a hurdle in front of Gov. Ron DeSantis's (R) move to strip the area of its special status.

DeSantis signed a bill on April 21 to dissolve the Reedy Creek Improvement District (RCID), a special taxing district that allows Walt Disney World to oversee its property as a quasi-governmental agency.

Continue reading.

THE HILL

BY KELSEY CAROLAN – 04/29/22 4:45 PM ET

California Slow to Sell Housing Bonds as Homelessness Worsens.

Residents in L.A. and Alameda County voted to use municipal bonds to ease a homeless crisis, but many housing projects remain bogged down by other obstacles.

California's efforts to alleviate homelessness through local borrowing are running up against the realities of slow-moving bond financing — and rising interest rates mean higher costs for the governments.

It's been more than five years since voters in Alameda County, home to Oakland; Santa Clara County, the heart of Silicon Valley; and Los Angeles approved borrowing a total of $2.73 billion to tackle homelessness and boost affordable housing. Yet, less than half authorized in Los Angeles and Alameda County has been sold while Santa Clara County has cleared about 63% of its share.

To avoid racking up interest costs unnecessarily, localities sell bonds only when the projects are ready to spend money on construction and other expenses. The share of unsold bonds demonstrates how even if the funds are earmarked, many projects remain bogged down in obstacles such as zoning and still have a long way to go before the money can be spent. Meanwhile, bond yields have started to rise, meaning governments will have to pay more for the debt than they would have paid a couple years ago. Benchmark 10-year municipal bond yields are about 170 basis points higher than they were a year ago, according to Bloomberg indexes.

Continue reading.

Bloomberg Markets

By Romy Varghese

April 21, 2022

University of California to Sell Debt to Pay for Campus Doctor's Assault Settlement.

- **Part of $3 billion issue will help fund James Heaps settlement**
- **Former UCLA doctor faces felony complaint, several lawsuits**

The University of California is expected to sell bonds of which a portion will be used to help finance settlement payments to victims of a university doctor for alleged sexual assault.

The school is slated to issue $3 billion of medical center pooled revenue bonds next week, through two series, $1.3 billion of tax-exempt bonds and $1.7 billion of taxable securities. A portion of the taxable series will be used to help fund the more than $700 million of expected settlement claims to victims of James Heaps, a former UCLA Health gynecologic oncologist for alleged sexual misconduct during exams, according to preliminary bond documents.

Though the University is insured, "the combined settlements will exhaust available insurance coverage and efforts are underway to evaluate options to fund the settlements," the documents say. To date, all settlements related to Heaps exceed $330 million, while the University expects the cumulative settlement amount to exceed $700 million, according to bond documents. "It is expected that a portion of the 2022 bonds will be used to fund a portion of the settlements of the Heaps matters."

While settlement bonds aren't common in the $4 trillion municipal bond market, the University of California is not the first school to turn to Wall Street to finance settlement payments to victims. In 2019, Michigan State University sold bonds to refinance a private placement loan that was used to compensate the victims of Larry Nassar.

About $680 million of debt was sold by muni issuers in 2021 where some of the proceeds would be funding lawsuit settlements including legal disputes over land or taxes. That's roughly a 10th of 1% of overall 2021 sales. Most of the 2021 issuance can be attributed to a $603 million sale by Michigan, which used bond proceeds to finance the state's settlement payments to victims of the lead-contaminated water supply in the majority-Black city of Flint.

Heaps's medical privileges allowed him to treat patients at Ronald Reagan UCLA Medical Center for more than two decades and was a consulting physician at UCLA Student Health from 1983 until 2010. He faces a felony complaint filed by the Los Angeles County District Attorney plus numerous lawsuits have been filed in both state and federal courts including one class action regarding the allegations.

The sale is being managed by Barclays Plc and JPMorgan Chase & Co, plus a syndicate of nearly two dozen other banks.

Bloomberg Markets

By Danielle Moran and Nic Querolo

April 22, 2022

Illinois Gets Third Upgrade on Rebounding Revenue, Reserves.

- **Moody's bumps up rating to Baa1 from Baa2 with stable outlook**
- **Lowest-rated state adding to rainy-day fund, pension payments**

Illinois had its credit rating upgraded for a third time in less than a year as rebounding revenue helped it pay down debts and federal aid eased some of the pain from the pandemic for the still lowest-rated U.S. state.

Moody's Investors Service on Thursday raised the state to Baa1 from Baa2 with a stable outlook, leaving it three levels above junk status. It last lifted the state in June and S&P Global Ratings followed in July by bumping Illinois up to BBB from BBB-. Both upgrades were the first for the state in two decades.

"The upgrade to Baa1 reflects the state's solid tax revenue growth over the past year, which expanded its capacity to rebuild financial reserves and increase payments towards unfunded liabilities," Moody's analyst Matthew Butler said in a report on Thursday. "The state is on track to close the current fiscal 2022 with its strongest fund balance in over a decade.

Illinois has made strides in recent years toward shoring up its finances, aided in part by billions in federal aid. It has paid back its borrowing from the U.S. Federal Reserve's Municipal Liquidity Facility and has reduced its unpaid bill backlog. The state is also increasing pension contributions and rebuilding its rainy-day fund.

Still, Moody's noted that its rating balances recent financial progress with underlying challenges such as "heavy long-term liability and fixed cost burdens" and an economy that has expanded at a slower pace than peers. Illinois's unfunded pension liability for its retirement systems stands at about $130 billion.

A credit upgrade means Illinois's interest-rate costs could decline, saving taxpayers millions over years that could be used instead for education, health care and public safety, Illinois Governor J.B. Pritzker, a billionaire Democrat seeking a second term in November, said during a press conference on Thursday. Illinois currently pays the highest penalty above benchmark AAA municipal securities tracked by Bloomberg.

"There is more work to be done, of course, but step by step, rung by rung we are steadily climbing the ladder out of the hole that was dug over decades," Pritzker said.

Bloomberg Markets

By Shruti Singh

April 21, 2022

[Illinois Risks Missing Merger Deadline for Local Pension Funds, Delaying Millions in Savings.]

- **June 30 is the statutory deadline for combining assets**
- **Pending court case, low trust may be holding back transfers**

Illinois is at risk of missing a statutory deadline to merge hundreds of local police pension funds, which proponents of the consolidation say could delay millions in savings.

Still, Illinois Governor J.B. Pritzker is sticking to his stance that merging these assets is key to curbing local property tax hikes, he said this week.

A 2019 law championed by Pritzker seeks to combine more than 600 local public safety pension funds into two funds — one for firefighters and another for police. Pritzker argues that doing so would increase the funds' returns and contribute to fixing the problem of low funding levels that has weighed on budgets and dampened credit ratings. However, his plans are being delayed by a pending circuit court lawsuit and mistrust about shifting local funds to a state entity, particularly among the police pension plans.

So far, the Illinois Police Officers' Pension Investment Fund has gathered roughly $660 million of the $9.7 billion intended for consolidation by June 30, according to executive director Richard White. Additional funds that would bring the total to above $1 billion may come next month, he said.

"Things are going slowly," White said in an interview. "It means that the statutory deadline of June 30 will come and go without the consolidation process being complete."

Three dozen current employees and retirees, along with 18 local retirement plans, are still awaiting a ruling from a Kane County Circuit Court judge on a case that seeks to block the combining of assets. They filed a lawsuit in February 2021 saying the consolidation violates the state's constitution.

"The state is working diligently with all partners toward fulfilling the aims of the legislation," Jordan Abudayyeh, a spokesperson for Pritzker, said in an emailed statement. She declined further comment about the delays and low level of police pension asset transfers citing the pending litigation.

Reduced Fees

The delay in consolidating the assets could impact the bottom line of these funds.

The Firefighters' Pension Investment Fund is scheduled to almost fully consolidate $7.5 billion in local assets by June 30, said executive director Bill Atwood. While $6.8 billion has already been transferred in, another $700 million is coming, he said.

These merged assets will help reduce fees by $27 million a year, Atwood said. With the fund's actuarially assumed rate of return, compounded savings could reach $375 million over a decade and more than $2.6 billion over 30 years, he said.

Even though the firefighters fund has continued to draw in assets, Atwood said there is some hesitation in transferring local funds.

"We are in Illinois and there is a history of problems here," Atwood said. "We are right here. We are very transparent. You can see returns and compare."

White, from the police fund, said building trust is a key part of his work as his team tries to consolidate more local assets.

"We are trying to be transparent. We are trying to build a relationship," White said. "We have to establish that trust."

Pritzker, a billionaire Democrat seeking re-election in November, has acknowledged that it may be a couple of years before savings come from combining the police funds.

Property Taxes

The stakes are high for Illinois, the U.S. state with the lowest rating despite upgrades from S&P Global Ratings and Moody's Investors Service. Moody's bumped up the state's rating in June and again on Thursday to Baa1, citing its "capacity to rebuild financial reserves and increase payments towards unfunded liabilities."

While the state's $130 billion unfunded pension liability weighs on its rating and finances, the same problem plagues towns and cities across Illinois. The collective unfunded liability of local public safety pension plans through the end of fiscal 2020 was $13.3 billion, according to state data compiled by the Illinois Municipal League.

The state isn't obligated to find solutions for the local plans, but underfunded pensions weigh on budgets and soak up revenue that could be used for other services. It can also lead to higher property taxes and erode credit outlooks. And, if its municipal governments struggle, the state's economic rebound that already lags the national average could fall further behind.

Pritzker, meanwhile, remains optimistic. The pension consolidation plan "alleviates the pressure, the upward pressure on property taxes that are caused by increasing pension burdens across the state," he said on Tuesday, shortly after he signed a $46 billion fiscal 2023 state budget into law that separately included a one-time property tax rebate.

"Already we've seen tens of millions of dollars of relief that's come from that in the fire pensions and we expect that we will see that for police pensions coming over the next two years," Pritzker said.

Bloomberg Politics

By Shruti Singh

April 21, 2022

Assured Guaranty Municipal Corp. Insures $608 Million of Inaugural Green Transmission Project Revenue Bonds for the Power Authority of the State of New York..

Proceeds of Tax-Exempt Green Bonds Will Fund Transmission Grid Modernization Projects and Support for Distribution of Renewable Power

NEW YORK, April 25, 2022–(BUSINESS WIRE)–Assured Guaranty Municipal Corp. (AGM)* announced that it has insured all $608.3 million of tax-exempt Green Transmission Project Revenue Bonds (Green Bonds) issued by the Power Authority of the State of New York (NYPA) on April 21. The Green Bonds represent the first issuance of bonds under a newly-created transmission revenue credit intended to finance new transmission projects and improvements to existing transmission projects of NYPA that have or are expected to have regulated rates of return.

The proceeds of the Green Bonds will be used to finance the capital costs of two transmission projects known as the "Central East Energy Connect Transmission Project" and the "Smart Path Reliability Transmission Project". The bonds will be payable solely from revenues derived from the funded projects (and not NYPA's general credit) and, secondarily, by AGM's unconditional guaranty of timely principal and interest payments.

"The capital generated from this green transmission revenue bonds sale is a significant investment in the foundation of a clean energy economy in New York State," NYPA Interim President and CEO Justin Driscoll said. "NYPA is working to achieve Governor Kathy Hochul's bold clean energy vision for the state, addressing the administration's 2022 State of the State green bonds commitment and accelerating New York's goal to ensure that 70% of the state's electricity comes from renewable energy by 2030, and 100% by 2040."

James Binette, Managing Director, Public Finance, Eastern Region of AGM said: "We are pleased that Assured Guaranty can bring its financial strength and three decades of experience working with municipal issuers to assist in launching this NYPA Green Bond issue, as well as other bond transactions that finance projects designed to produce or distribute energy more cleanly, cheaply and in a renewable way. Our guaranty can help attract investors to large transactions or novel structures and lower the cost of bringing bonds to market in general. We look forward to future endeavors with NYPA, the State of New York and other issuers developing renewable energy projects and future Green Bond issuances."

Goldman Sachs and Co. LLC managed the sale.

Mon, April 25, 2022, 9:45 AM

Disney to Lose Special Tax Status in Florida Amid 'Don't Say Gay' Clash.

Lawmakers in the state voted to revoke the company's special designation after a dispute with Gov. Ron DeSantis over a new education law.

Disney employs 38 lobbyists in Florida's capital. Each election cycle, the company gives generous campaign contributions to Florida candidates on both sides of the political aisle. Its theme park megaresort near Orlando attracts around 50 million visitors a year, powering a Central Florida tourism economy that annually generates more than $5 billion in local and state tax revenue.

The upshot: Disney usually gets whatever it wants in Florida.

That era ended on Thursday, when the Florida House voted to revoke Disney World's designation as a special tax district — a privilege that Disney has held for 55 years, effectively allowing the company to self-govern its 25,000-acre theme park complex. The Florida Senate voted on Wednesday to eliminate the special zone, which is called the Reedy Creek Improvement District. Having cleared the way to this outcome with a formal proclamation, Gov. Ron DeSantis will almost certainly make the measure official by adding his signature. It would take effect in June next year.

Continue reading.

The New York Times

By Brooks Barnes

April 21, 2022

Florida Bill to End Disney's Special Tax District Heads to Gov. DeSantis for Signature.

In a setback for company's Florida operations, GOP-led House passed the bill 70-38 on Thursday

Florida lawmakers gave final approval to a bill that would end a special tax district that allows Walt Disney Co. to govern the land housing its theme parks, escalating a weekslong dispute with Disney over its public opposition to a Florida bill that limits classroom instruction on gender and sexuality.

The measure now goes to Republican Gov. Ron DeSantis, who has made clear he would sign it.

The GOP-led House passed the tax district bill 70-38 on Thursday, a day after the Senate approved it 23-16. Mr. DeSantis called for lawmakers to take up the measure in a special session he convened this week, after sparring with Disney for weeks over the classroom instruction bill, which Mr. DeSantis signed into law last month.

Stripping Disney of a key operating advantage represents one of the more high-profile backlashes in recent memory against a company for a political stance. Companies have increasingly faced pressure by employees and others to stake positions on hot-button social and political issues, but have rarely, if ever, faced such pointed censure for doing so.

The move also reflects the growing populist, anti-company strain, particularly around cultural issues, in the GOP, traditionally seen broadly as the party of big business. Mr. DeSantis, a popular Republican governor with possible presidential aspirations, is taking on an iconic American company that for decades has brought significant revenues to his state.

The special district, created in 1967 and known as the Reedy Creek Improvement District, exempts Disney from numerous regulations and certain taxes and fees. It has permitted the company to manage its theme parks and resorts in the state with little red tape for more than 50 years.

“I think it’s time Disney had to follow the same rules as everyone else,” said Spencer Roach, a Republican state House member from Lee County, Fla. who was one of the original supporters of the idea of ending Reedy Creek. “Disney will finally be put on an even regulatory and taxing playing field with other theme parks.”

Disney declined to comment and has so far not publicly responded to the special-district legislation.

On Thursday, the White House weighed in against the legislation.

“We oppose the governor taking action against a company because of their opposition to that bill,” White House spokeswoman Karine Jean-Pierre told reporters traveling with the president, referring to the Parental Rights in Education law that Disney opposed.

Ending the district could be a complicated process, and is likely to provoke a legal battle that could prolong the public dispute between Disney and Mr. DeSantis. According to a bill analysis by legislative committee staff, dissolving the district could require approval by a majority of the resident electors or landowners of the district.

Reedy Creek’s two residential communities, Bay Lake and Lake Buena Vista, have about 50 permanent residents in total, most of them Disney employees. As primary landowner in the district, Disney controls most of the votes to elect Reedy Creek’s board of supervisors, giving the company strong influence over any vote within the community.

David Ramba, executive director of the Florida Association of Special Districts, said that the bill will almost certainly draw lawsuits, and that Disney could argue that the legislature doesn’t have the power to dissolve the district with a general law because it was originally created by a special act of the legislature.

“There could be challenges to the constitutionality of the law that was passed if the parties don’t work out some agreement on how to implement the law before July of next year,” Mr. Ramba said.

Under the bill passed by lawmakers on Thursday, any special district established before the ratification of the Florida Constitution in 1968, and not renewed since then, would be dissolved on June 1, 2023. Disney could seek to re-establish a special district after its dissolution.

If the district is dissolved, responsibility for Reedy Creek’s governance would likely fall to Orange County and to a lesser extent Osceola County, according to Mr. Ramba.

Orange County Mayor Jerry Demings said Thursday that lawmakers “have not adequately contemplated the ramifications of what they have proposed” and that county taxpayers could end up on the hook for public safety and other costs. An Osceola County spokeswoman said Thursday that officials would begin analyzing potential financial impacts to the county.

Disney currently pays property and other taxes to both counties. In addition, the company, as the primary landowner at Reedy Creek, provided most of the $153 million in revenue from taxes and fees that the district collected in fiscal 2021. That money covers all of the district’s governing expenses, including paying about 400 employees’ salaries.

It is also used to service about $977 million in long-term bond debt that Reedy Creek has issued over the years.

If the district is dissolved, that debt would become the responsibility of the taxpayers in Orange and Osceola counties, Mr. Ramba said, but the counties would likely set up a new special taxing district to tie bond payments to the tax revenue produced by Disney’s properties within Reedy Creek. Also, some of the taxes and fees Disney currently pays Reedy Creek would go instead to the county governments.

There would likely be a messy negotiation over how to pay for Reedy Creek’s municipal debt, said James Clark, a historian at the University of Central Florida who has studied Reedy Creek.

“If taxpayers get stuck with the bonds, then the counties will be the big losers from this bill, and Disney loses a lot by losing the control they get from having Reedy Creek,” Mr. Clark said. “The only clear winner [from the passing of the bill] is Ron DeSantis.”

The squabbling between Florida Republican lawmakers and Disney began when the entertainment company spoke out against the Parental Rights in Education law, which critics call the “Don’t Say Gay” legislation. The measure bars classroom instruction on sexual orientation and gender identity through third grade, and limits it for older students to material that is “age-appropriate.”

Disney initially didn’t comment on the legislation, but came under pressure from employees to oppose it. After it passed, the company pledged to push for its repeal and to fight similar bills in other states.

Disney employs nearly 80,000 people in the state, mostly at its theme parks and resorts. Tourism to the area contributes $5.8 billion in local and state tax revenue annually when operating at full capacity, according to Visit Orlando.

The Wall Street Journal

By Arian Campo-Flores and Robbie Whelan

Apr. 21, 2022

Florida’s DeSantis Strips Disney’s Self-Governance Privileges.

Florida Governor Ron DeSantis signed a law to strip Walt Disney Co. of its self-governance privileges in the state and said the entertainment giant will end up paying more taxes with the new legislation.

“We really need to get away from this type of treatment,” DeSantis said at a signing ceremony on Friday. “Don’t worry, we have everything thought out. Don’t let anyone tell you that somehow Disney is going to get a tax cut out of this. They’re going to pay more taxes as a result.”

The legislation, which sets to dissolve the Reedy Creek Improvement District created where Disney operates its Walt Disney World Resort, could have major consequences for the company that has been in a heated dispute with DeSantis after it criticized a law he backed that limits school instruction about gender identity and sexual orientation. DeSantis, a potential 2024 Republican presidential candidate, asked legislators to consider the move in a surprise proclamation on Tuesday.

Reedy Creek has about $1 billion of municipal bonds currently outstanding, according to data compiled by Bloomberg. The action raised questions about who will be on the hook for paying back this debt and how Disney will move forward after being able to govern its own municipal functions for more than 50 years.

The Disney district has its own building codes and approval process for new projects, meaning that Disney often doesn’t have to wade through bureaucratic channels spanning multiple governments to get things done. The measure also eliminates five smaller special districts in other parts of the state as of June 1, 2023, barring any further legislative action.

In a press release Friday, DeSantis’s office said “it is not the understanding or expectation” that the legislation will cause any tax increases for Florida residents.

“In the near future, we will propose additional legislation to authorize additional special districts in a manner that ensures transparency and an even playing field under the law,” the statement said.

Burbank, California-based Disney has yet to comment on the legislation.

DeSantis slammed Disney for videos he said had been exposed by Christopher Rufo, a conservative activist with the Manhattan Institute, that show the company had an “intentional agenda to inject sexuality in the programming that’s provided to our youngest kids.”

The governor capped the contentious week in state politics by also signing a bill that limits how companies and schools can teach about race.

Passed by the state’s legislature last month, the bill was first proposed by DeSantis to “take on both corporate wokeness and critical race theory” and comes as Republican politicians in Florida have targeted a series of culture-war, wedge issues in an election year.

Bloomberg Politics

By Nathan Crooks

April 22, 2022

[Disney District Reassures Investors on Bonds in DeSantis Fight.]

The special district that encompasses Walt Disney Co.'s Florida resort assured investors their debt is going to be paid and said it's exploring various options as the state legislature is poised to pass a bill that could dissolve the issuer.

The Reedy Creek Improvement District, where the Disney World theme park and resort are based, reminded bond holders that Florida has pledged to fulfill the terms of any agreement made with holders of district bonds and will not in any way "impair the rights and remedies" of holders, according to a filing posted Thursday to the Municipal Securities Rulemaking Board EMMA website.

Florida's Republican-controlled house will vote Thursday on a measure to strip Disney of its self-governance privileges in the state, escalating a feud between Governor Ron DeSantis and the entertainment giant. The legislation could lead to the dissolution of Reedy Creek, created in 1967 to allow Disney to carry out certain municipal functions on its own. The district has about $1 billion of municipal bonds outstanding, according to data compiled by Bloomberg.

"In light of the State of Florida's pledge to the District's bondholders, Reedy Creek expects to explore its options while continuing its present operations," the filing said. This includes "paying debt service on its ad valorem tax bonds and utility revenue bonds, complying with its bond covenants and operating and maintaining its properties."

Bloomberg Markets

By Danielle Moran

April 21, 2022

— With assistance by Amanda Albright

[DeSantis Attack on Disney Drags Muni Market Back Into Politics: Joe Mysak]

- **Florida seeks to end Disney district with $1 billion in bonds**
- **Governor objects to company criticism of 'Don't Say Gay' bill**

Governor Ron DeSantis of Florida this week escalated his war of words with the Walt Disney Co. by threatening to abolish the company's special district, set up in 1967 to help finance the Disney World theme park and resort complex.

What this is really about is the Republican governor's objecting to Disney's criticism of the state's "Parental Rights in Education" law, labeled by critics the "Don't Say Gay" bill because it limits instruction about gender identity and sexual orientation in schools. The nation's disputatious culture wars have come back to the municipal bond business.

It's rare for the $4 trillion market to see power politics played out in such raw fashion, especially with a company as big and successful and tax-paying as Disney. Or relatively rare.

In Texas last year, some Republican lawmakers took umbrage at Jamie Dimon, chief executive officer of JPMorgan Chase & Co., for saying his bank didn't finance gun companies that make military-style weapons for consumers. Dimon did this in testimony before Congress in May, as part of a Wall Street oversight hearing featuring the big banks' CEOs.

Texas lawmakers already had been working on legislation requiring banks seeking municipal or state contracts worth $100,000 or more to certify that they don't discriminate against firearm or ammunition industries and retailers. Since the bill became law, JPMorgan, Goldman Sachs Group Inc. and Bank of America Corp. haven't underwritten a municipal bond deal sold by the state or a Texas city.

This lust to punish the nation's biggest banks is spreading, with conservative lawmakers in at least eight states seeing the need to protect gun culture. Another five states followed a Texas move to defend fossil fuels.

I don't know about you, but if I needed to borrow money, I would want the biggest banks competing for my business.

The municipal market is an unusual arena for political arguments or criticism of corporate free speech. Most elected officials take an accommodating stance toward companies, wanting them to do business in their states and hire people.

Republican Strategy

That the anti-bank strategy is coming from Republicans, who are generally known as pro-business, shows just how far we've come with this culture wars stuff. In order to score political points that may last no more than an election cycle or two, some politicians are endangering the careful work of decades.

Florida appears ready to make Disney's life a little more difficult. A vote on Thursday in the state's House of Representatives to terminate the Reedy Creek Improvement District is likely to be approved.

Rather than doing things on their own, Disney would presumably have to work with both Orange and Osceola counties, the location of the approximately 25,000 acres that comprise the district, 15 miles southwest of Orlando.

Threatening the area's economic engine, not in the service of any real public good, but just sort of because you can, is reckless. Money doesn't stay where it's not wanted.

Disney, which has spent at least $11 billion on improvements to its eponymous theme park, may be unlikely to move, but never say never. For all those who think a successful franchise would never, ever, pack up and leave, I have two words: Brooklyn Dodgers.

"Terminating" an improvement district may not be so easy, anyway, as my colleague Eric Kazatsky of Bloomberg Intelligence pointed out.

"It is jarring to me to see the narrative around Reedy Creek be so simplified," he said in an email on Wednesday. "This is not the same as an assessment for a new elevator at a Florida retirement community. The state cannot just dissolve the district and send everyone a bill. Legal covenants have been made for non-impairment of Reedy Creek with bondholders. Many of those being large firms with deep pockets to fight any attacks."

Politicians who engage in this kind of mindless games-playing would be best advised to cool it. Culture wars have no place in the dollars and cents world of public finance, where unintended consequences can cost millions.

Bloomberg Markets

By Joseph Mysak Jr

April 21, 2022

DeSantis's Rush to Battle Disney Puts $1 Billion of Muni Debt in Question.

- **Pending measure could end Disney special district next year**
- **Disney's district has about $1 billion in municipal debt**

Florida Governor Ron DeSantis's move to escalate a dispute with Walt Disney Co. by terminating its iconic theme park's special privileges leaves $1 billion in municipal debt hanging in the balance. Even the bill's Senate sponsor said it's too soon to say exactly who would pay back the debt.

Bills were quickly introduced in both chambers on Tuesday that could terminate all special districts that were enacted in Florida prior to 1968, including the Reedy Creek Improvement District where the company's Walt Disney World resort is based. The measure was approved by the Senate on Wednesday, and it will now move to the House before being sent to DeSantis for his signature.

The surprise announcement could have major consequences for Disney, which has had to maneuver a heated dispute with DeSantis after the company criticized a law that limits school instruction about gender identity and sexual orientation. The Reedy Creek Improvement District has about $1 billion of municipal bonds currently outstanding, according to data compiled by Bloomberg.

"As a bondholder, we worry about who is going to pay us back," said Evgenia Lando, a portfolio manager for Thornburg Investment Management, who holds the Reedy Creek bonds. She said she's not concerned about the debt defaulting because Florida statute says that the obligations would be transferred to other local governments. "It's definitely headlines and noise; it's nothing you want attached to an entity."

Under current Florida statutes, the debts and assets of a special district that is dissolved are passed to the municipal government that takes over. Some Democratic Senators wondered if the move could ultimately transfer debt incurred by Disney to the small cities of Bay Lake and Lake Buena Vista, in addition to the governments of Orange and Osceola counties. Bay Lake had a population of just 29, according to the 2020 census, while Lake Buena Vista was home to 24.

Republican State Senator Jennifer Bradley, who sponsored the legislation in the Florida Senate, said the current bill would not cancel any debt. The bill calls for the districts to be dissolved as of June 1, 2023, barring any further legislative action.

"This bill says that there is a year to come back and let's have a legislative discussion about the validity and scope of that district," she said. "And should we go down that road of dissolution, there'll be careful consideration of all of the issues. It will be a complicated transaction to be sure."

Pay Back the Debt

When pressed on the issue of possible debt cancellation, Bradley said she wasn't sure what would happen. "That's something that I can't speak to," she said. "Because I don't know how that dissolution would play out and what would happen with those debts before we get there and that allocation occurs."

Bradley was unable to say who wrote the bill, other than noting that she had received it from "professional bill drafters" before introducing it Tuesday.

Analysts at S&P Global Ratings said they're monitoring the situation and waiting for final legislation to make an assessment.

"The State of Florida has made many legal promises to bondholders of Reedy Creek," said Eric Kazatsky, Bloomberg Intelligence senior strategist. "Namely they have promised not to alter the rights of the District or impair the rights of bondholders, and more importantly impair the exemption of the assets and properties of the District. Trying to walk those back will be a huge legal hurdle."

Democratic state senators questioned everything from the rushed timing of the bill to the possible impact the law could have on new bond issuance or possible acceleration clauses.

"We know where this bill came from," State Senator Gary Farmer said. "It's shoot first and ask questions later."

A representative for the governments of Bay Lake and Lake Buena Vista didn't immediately respond to a request for comment.

Krystal Diaz, a spokesperson for Osceola County, said they will evaluate the impact "if/when" lawmakers take action and have no further comment now.

"Orange County Government is monitoring the special session in Tallahassee, particularly when it comes to unfunded cost shifts to local governments," said Orange County Mayor Jerry L. Demings in an email through a spokesperson. He declined to comment further before any final legislative action.

'Hornet's Nest'

State Representative Randy Fine, a Republican who sponsored the bill in the House, said the legislation would affect six special districts in the state, including the Marion County law library district.

"When you kick the hornet's nest, sometimes issues arise," Fine said when asked if the measure was punitive because of Disney's position on the schools bill.

Reedy Creek was created in 1967 by a special act of the legislature to allow Disney to carry out certain municipal functions on its own. The district has its own building codes and approval process for new projects, meaning that Disney often doesn't have to wade through bureaucratic channels spanning multiple governments to get things done.

Special districts provide specific, focused services for a particular reason. They're often created to not overburden a tax base with services that they're not using. In Reedy Creek, for example, the district is responsible for both the general functions of running a mini city like building highways, emergency services and maintaining sidewalks, while also running all of the water and power utilities that make Cinderella's castle light up.

"There are so many things we do not know the answer to," Aubrey Jewett, a professor at the the

University of Central Florida who studies U.S. politics with an emphasis on Florida, said in an interview.

‘Transition Costs’

If the action had been proposed in a regular session, experts would have been brought in to discuss the a transfer of responsibilities and debt service, he said, but Republicans are jamming the bill through quickly.

Reedy Creek has been around for more than a half-century “to get rid of it in just a few days on a whim because you’re mad — that makes very little sense,” Jewett said.

Richard Foglesong, a historian and political scientist who wrote a book about Disney’s history in Florida, said the special district was about more than just money for Disney, with the company avoiding red-tape by controlling its own regulation. While Disneyland in California can serve as model for how Disney World could operate in Florida with regular municipal regulation, local governments will still face serious challenges if they have to suddenly staff new building departments.

“What would happen if Reedy Creek was suddenly dissolved? I think it would be a calamity in the short run,” he said in a phone interview from Orlando, Florida. “You could run a place like Disney World without Reedy Creek, but there would be high transition costs.”

Bloomberg Markets

By Nathan Crooks and Danielle Moran

April 20, 2022

— With assistance by Christopher Palmeri

Florida Gov. Ron DeSantis Signs Bill Repealing Disney’s Special District For Walt Disney World.

Florida Gov. Ron DeSantis signed legislation Friday that strips Disney of a special district that covers Walt Disney World, after the company came out publicly against the state’s parental rights law.

It’s unclear what the ultimate financial impact will be on Disney, but Democrats have warned that dissolving the Reedy Creek Improvement District could leave Florida’s Orange or Osceola counties to pay the district’s existing debts.

DeSantis, standing at a lectern with the message “Freedom from Indoctrination,” accused Disney of pushing an LGBTQ agenda. DeSantis claimed the company had an “intentional agenda” to “inject sexuality into the programming that is provided to our youngest kids.”

Continue reading.

deadline.com

By Ted Johnson

4/22/22

Providence Officials Plug for Pension Obligation Bond Despite Warning From Gov Finance Officers.

Providence Mayor Jorge Elorza and elected officials are kicking off the “Vote Yes on 1” pension obligation bond campaign Tuesday morning.

Elorza will join City Council President John Igliozzi (Ward 7), Councilwoman and Pension Working Group member Helen Anthony (Ward 2), Providence Representative Scott Slater, Providence Representative David Morales, Pawtucket Representative Carlos Tobon, Providence Senator Sam Bell and community members to kick off the Save Providence: Vote Yes on 1 pension obligation bond (POB) campaign.

“Despite the significant improvements to the city’s overall finances, the unfunded pension liability still looms as a ticking time bomb,” said Elorza in February when legislation was introduced at the Rhode Island State House. “Armed with the recommendations of the Pension Working Group, we are committed to finding a long-term fix to the city’s unsustainable yearly pension payments. I thank the members of the Pension Working Group for their recommendations, which have made the Pension Obligation Bond proposal stronger, and I thank the co-sponsors of the bill for advocating for our city’s future.”

“There’s no question the city needs to take immediate action to help stabilize our precarious pension system. The proposed pension obligation bond of up to $515 million, with financial guardrails in place, is a step in the right direction,” said Council President Igliozzi. “To my fellow lawmakers at the statehouse, we now respectfully ask for your help in approving this legislation that will provide Providence and its taxpayers with the financial tools needed for long-term security.”

Experts Warn This Is Irresponsible

As GoLocal reported previously — local and national municipal financial officers are warning about the dangers of this form of financing.

“Pension Obligation Bonds carry significant risks, that is why the Government Finance Officers Association recommends state and local governments exercise caution before authorizing them,” said Gary Sasse, the former head of the Rhode Island Public Expenditure Council and founding director of the Hassenfeld Institute at Bryant University.

“It is my understanding that Providence pension obligation bonds [POBs] are being proposed because the City has no politically viable option. This does not make them any less than a riverboat gamble,” added Sasse.

Even more critical is the guidance of the Government Finance Officers Association (GFOA), which has issued an alert recommending that state and local governments do not issue POBs for the following reasons:

– The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.

– POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.

– Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes.

golocalprov.com

April 12, 2022

I've Studied Stadium Financing for Over Two Decades – And the New Bills Stadium Is One of the Worst Deals for Taxpayers I've Ever Seen.

After New York lawmakers blew past the deadline to approve the state budget, they finally came to an agreement on April 9, 2022, that included a US$850 million subsidy for a new stadium in Buffalo for the NFL's Bills.

As a sports economist who has studied stadium deals for over two decades, I am not exaggerating when I write that the New York Legislature has managed to craft one of the worst stadium deals in recent memory – a remarkable feat considering the high bar set by other misguided state and local governments across the country.

Study after study has shown that stadiums are terrible public investments. The taxpayers financing them rarely want to pay for them. So why are governments willing to subsidize them?

Continue reading.

The Conversation

by Victor Matheson

April 15, 2022

Public Foots Most of the $1.4 Billion for a Stadium. Buffalo Fans Cheer.

Critics have savaged the deal, which would use $850 million in state and local funds. But many in the city say keeping the Bills in Buffalo is good for civic pride.

ORCHARD PARK, N.Y. — Just like the Buffalo Bills themselves, who famously lost four straight Super Bowls, there is no question that the team's new $1.4 billion stadium proposal has its doubters.

The stadium, to be built across the street from the Bills' current home in this Buffalo suburb, is expected to receive the most generous outlay of public funds for a pro football facility ever, an extension of a decades-long trend in which local and state governments pay big money to keep or lure for-profit, and privately held, sports franchises.

Critics have already savaged the deal — which will cost the state $600 million and Erie County an additional $250 million — as an egregious example of corporate welfare. Others view it as a blatant example of election-year largess, orchestrated by a governor, Kathy Hochul, whose upstate bona fides do not necessarily translate to support downstate, where New York elections are won and lost.

[Continue reading.](#)

The New York Times

By Jesse McKinley

April 16, 2022

[Illinois Legislators Pass $46.5 Billion Budget With Tax Relief.](#)

- **State fiscal 2023 budget includes fuel, grocery tax relief**
- **Budget adds to rainy-day fund, pays more toward pensions costs**

Illinois lawmakers passed a $46.5 billion budget for the year that starts July 1, a spending plan that includes tax relief on groceries, fuel and property while bolstering the state's rainy-day fund.

The final votes from the House of Representatives and Senate to pass the fiscal 2023 budget came overnight as the legislature's spring session came to a close. The agreement includes about $1.83 billion in tax relief and puts $1 billion into the state's nearly empty rainy-day fund. It will now head to Governor J.B. Pritzker, a billionaire Democrat who's seeking a second term in November, for his signature.

"Short and long-term debt reduction and a balanced budget for the fourth year in row. We've achieved our state's strongest fiscal position in generations," Pritzker said on Saturday after the passage. "Just a few years ago some people said what we've achieved was impossible."

Pritzker along with House Speaker Chris Welch and Senate President Don Harmon, both Democrats, on Thursday announced that they had struck a deal on the broad strokes of the budget. In February, Pritzker had proposed a fiscal $45.4 billion budget with a $279 million contribution to the rainy-day fund, following $600 million in fiscal 2022. A growing economy and higher-than-estimated revenue have led to a surplus, a sharp contrast to the $406 million deficit forecast in November by the Pritzker administration.

The budget comes amid improving finances for the U.S. state with the lowest credit rating. Illinois received its first credit upgrades in two decades from Moody's Investors Service and S&P Global Ratings in 2021, partly due to higher tax revenue, billions of dollars in pandemic relief from the federal government, and improved fiscal management.

Passage of budgets on-time after a two-year impasse from 2015 to 2017 and reducing unpaid bills are among accomplishments cited by rating firms and investors. The state repaid early the full $3.2 billion it borrowed from the Federal Reserve's Municipal Liquidity Facility in 2020 and lowered its unpaid bill backlog to about $3.8 billion from more than $16 billion in 2017.

Continuing improvements in operating performance toward structural balance may be among factors that support a move to the state's pre-pandemic rating or higher, Eric Kim, a senior director for Fitch Ratings, said in an emailed statement on Friday.

"The budget agreement in Illinois suggests the state is on track to implement credit-positive measures that rebuild fiscal resilience and reduce long-term liabilities including a meaningful deposit to the rainy day fund, addressing long-standing unpaid healthcare bills and chipping away at the pension liability," Kim said.

The state also is including supplemental pension payments in addition to the annual statutorily requirement amount and is reducing debts.

State Republicans, however, said the election-year budget includes "gimmicks" and some temporary fixes.

"Instead of committing to real solutions to combat crime and deliver permanent tax cuts, J.B. Pritzker pushed election year gimmicks that don't reverse his anti-police, pro-criminal policies but do set up his campaign to permanently raise taxes after the election," Richard Irvin, a gubernatorial candidate who is currently the mayor of Aurora, Illinois's second-largest city.

Bloomberg Markets

By Shruti Singh

April 9, 2022

[Illinois's Shady Political Image Weighs on Appeal of its Debt.]

The indictment of ex-House Speaker Michael Madigan is another blemish for Illinois to overcome as it looks to boost a credit rating that ranks below all other U.S. states.

The indictment of former Illinois House Speaker Michael Madigan has added to the state's reputation for corrupt politics – a history that risks tamping investor interest in its municipal debt amid a bond market rout.

Madigan, known as the Velvet Hammer over a career as speaker that spanned nearly four decades, faces a 22-count case that includes federal corruption, racketeering and bribery charges. He has pleaded not guilty. It's the latest in a long line of scandals involving Illinois lawmakers, with other politicians accused of tax fraud, embezzlement and even trying to sell former President Barack Obama's Senate seat.

The frequent imbroglios could affect which investors are willing to buy Illinois debt and how much yield they want in return in the $4 trillion municipal bond market, where Illinois is among the largest state borrowers.

Continue reading.

Bloomberg CityLab

By Shruti Singh

April 7, 2022

[N.Y. Agency to Sell $600 Million Green Bonds to Modernize Grid.]

- **Projects will boost state's capacity to move renewable power**
- **New York Power Authority created new bond for the deal**

The New York Power Authority, the largest state-owned electric utility in the U.S., plans to sell about $600 million of tax-exempt green bonds Tuesday for two projects that will help rebuild the transmission grid and move renewable power more cheaply.

The deal will be NYPA's first ever sale of securities backed solely from revenue earned by specific transmission projects, not the authority's general credit. Goldman Sachs Group Inc. is managing the sale.

The proceeds will be used to rebuild 86 miles (138 kilometers) of transmission lines extending from a hydroelectric generating plant on the St. Lawrence River and a new 93-mile transmission line that will carry power generated by wind turbines in central New York to Albany.

Many of New York's transmission lines were built in the 1940s and don't have the capacity to move energy produced upstate to the high-demand metropolitan New York City area.

"What these projects are doing is modernizing and rebuilding the transmission grid to increase their capacity so that you can economically and cost effectively move renewable power from where it's being produced to where it needs to be consumed," said Adam Barsky, NYPA's chief financial officer. "These projects will save millions of tons of carbon."

Governor Kathy Hochul wants 70% of New York's energy to be produced by renewable sources by 2030 and 100% by 2040. To meet the goal, the state will have to accelerate construction of existing projects, build more of them, and partner with private firms, NYPA officials say.

NYPA, which owns 37% of high-voltage lines in the state, plans to spend $1.1 billion to extend and modernize the grid over the next four years, according to NYPA Interim President Justin Driscoll. The authority owns 16 generation facilities and produces more than 25% of the state's energy.

NYPA's so-called green-transmission project revenue bonds are backed by customer charges that have been approved by regulators, ensuring that construction, operation and maintenance costs can be recovered. Assured Guaranty Ltd. is also insuring the bonds against default.

"That revenue requirement is socialized throughout the entire NYPA system," said Barsky. "So every ratepayer will have some small percentage build into their rates." New York has 20 million ratepayers, he said.

The bonds are certified green by Sustainalytics and will have about a 1.6 ratio of net income to debt service. If that coverage falls below 1.2 times, revenue that would have otherwise been available to NYPA are trapped. The authority will provide $74 million of equity at closing.

Fitch Ratings gave the bonds a AA- rating, its fourth-highest investment grade rating. Moody's Investors Service assigned a A2 rating, two grades lower.

NYPA created a separate bond structure to finance the projects because they're very capital intensive and require a lot of debt, Barsky said. Issuing more debt under NYPA's general-obligation pledge could have weakened the underlying rating.

"It's allowing us to efficiently deploy this capital in a way that we can take on these types of projects," said Barsky.

The new bonds may be more attractive to New York investors who have filled their allocation to frequent issuers like New York City and the Dormitory Authority of the State of New York, said Ben Pease, head of municipal trading at Breckinridge Capital Advisors, Inc.

"Finding different names to diversify New York based accounts can sometimes add a premium or result in additional demand for unique issuers," said Pease.

Bloomberg Green

ByMartin Z Braun

April 4, 2022

[Wall Street Banks Face Biggest Texas Loss Yet in Mega Bond Deal.]

- **Texas agency seeks manager for $3.4 billion storm-bond sale**
- **Deal may be state's biggest in at least two decades: Bloomberg**

Some of Wall Street's biggest municipal-bond underwriters, ousted from Texas after they limited business with the gun industry, are now facing their biggest loss of business yet as the Lone Star state seeks underwriters for a $3.4 billion storm-bond sale.

The deal could be the biggest municipal-bond sale in Texas in at least two decades, according to data compiled by Bloomberg. Typically large banks handle sales of this magnitude, but three of the biggest in the country, Bank of America Corp., JPMorgan Chase & Co and Goldman Sachs Group Inc., haven't underwritten a muni sale by the state or its cities since the GOP-led Texas legislature enacted a law in September that blocks governments from working with banks that have curtailed ties to the gun industry.

The Texas Natural Gas Securitization Financing Corp., a public entity established by the Texas Public Finance Authority in 2021, is charged with selling the debt to bail out natural gas utilities stung by huge financial losses after the deadly February 2021 winter storm. Last year's freeze killed hundreds and paralyzed the state for days. The sheer size of the offering promises a windfall of fees to whichever banks ultimately land the contract.

"This is a one-shot deal, dealing strictly with a particular industry and a particular winter storm" Lee Deviney, executive director of the authority, said during a panel at an industry conference in March. "There will be a lot of satisfaction when it gets done because we have never done anything of this magnitude before."

Banks that submit proposals for the contract have to certify they are in compliance with Texas's laws and as such don't "discriminate" against the firearms industry because of the GOP-backed law enacted Sept. 1 known as Senate Bill 19.

Spokespeople for Bank of America and JPMorgan declined to comment. A spokesperson for Goldman didn't immediately respond to a request for comment.

The firms applying for the underwriting contract also can't boycott energy companies, among other requirements like not terminating business relationships with Israel or being a foreign terrorist organization, according to the request for proposals posted on the authority's website. The deal will likely be managed by a team of firms in senior manager and co-manager positions.

To be sure, there are still major players that have continued to do business in the Lone Star state. RBC Capital Markets, Raymond James & Associates and Jefferies Financial Group Inc. are the top three banks in Texas underwriting since Sept. 1, according to data compiled by Bloomberg. Morgan Stanley and Wells Fargo & Co. have also been active in the market. Citigroup also returned in November.

"If there are only a few firms knocked out of responding due to compliance issues, that should not impact performance on the sale as there will still be enough other large muni bond firms that will be able to smoothly execute the sale," said Martin Luby, a professor who researches public finance at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin.

Deviney said the firms that work with Texas know that they need to be in compliance with all the state's laws.

"We put our service providers on notice that when they enter into a contract with us they are confirming they are in compliance with all relevant state laws," he said.

He said that the authority has not yet seen any pricing impact because of the limited competition of underwriters. "We had robust underwriting syndicates and we got excellent pricing," he said.

August Deal

The RFP was distributed on April 8 and firms have until Wednesday to provide "indications of intent to respond." They have to ask any questions by April 15, and the formal submissions are due April 22. Banks will then be evaluated and interviewed between late April and early May, and a selection will be made at a upcoming board meeting, the date of which is not yet determined.

Proceeds of the sale will used by eight gas utilities to pay for the "extraordinary cost of natural gas" due to high-demand caused by Winter Storm Uri, according to the RFP. The bonds are expected to be sold by mid-August.

Some gas utilities incurred enormous losses during the 2021 event when bitter cold crippled the second-largest U.S. state's energy infrastructure and prices for the fuel soared to levels never seen before. As a result, lawmakers last year approved a process known as securitization that will allow repayment to be spread out over decades, easing the financial impact on homeowners and other customers.

The bonds probably will cost customers of the utilities involved about $1.25 a month instead of hundreds of dollars at one time.

In the RFP document, banks are asked how many deals they've underwritten nationally and in Texas in the past five years, plus how many transactions over $1 billion they have either senior managed or co-managed. And firms applying to lead the transaction are even asked to recommend their peers.

"If your firm was not chosen to be the book-running Senior Manager for the proposed financing, what firm would you recommend to be the book-running Senior Manager?" the RFP asks.

Bloomberg Markets

by Danielle Moran

April 11, 2022

— With assistance by Joseph Mysak Jr, and Sergio Chapa

Bottom Line Conversations: What a Public Bank Will Do for Philadelphia

Join Senior Economics Correspondent Oscar Perry Abello for the latest in his webinar series that goes beyond the issues of equitable economic development to talk to the people who do the work.

On Wednesday, April 20, at 1 p.m. Eastern, join Next City's Senior Economics Correspondent Oscar Perry Abello for the latest in his Bottom Line Conversations webinar series. In this edition, he will talk with Derek Green, Councilmember At Large for the city of Philadelphia.

Green will talk about the groundbreaking legislation he introduced and championed, to establish the Philadelphia Public Financial Authority, the country's first city-established public banking entity. Broadly speaking, public banks are government-owned entities that hold state or local government deposits and leverage them to advance policy goals while returning profits to the public.

Abello and Green will talk about what makes this legislation so groundbreaking; what the bill, which passed in March, does and does not do; and where its true potential lies. Green, a former small-business banker himself, believes that a public bank could increase access to credit for Black businesses in a city whose population is 45% Black, but where only 2.5% of businesses with employees are Black-owned.

Next City's series "The Bottom Line" explores scalable solutions for problems related to affordability, inclusive economic growth and access to capital. The series is made possible with support from Citi.

Click here to learn more and to register.

NEXT CITY

WEDNESDAY, APRIL 20, 2022

NFL's Bills to Get $600 Million From New York in Hochul Stadium Deal.

- **Team, NFL would spend $550 million for $1.4 billion venue**
- **State share, part of governor's budget, needs legislature's OK**

New York state taxpayers would spend $600 million to help build a new stadium for the Buffalo Bills with a capacity of least 60,000 people as part of a proposal by Governor Kathy Hochul.

Under an agreement with Erie County announced Monday, the Bills and the National Football League will contribute $550 million to the $1.4 billion stadium and the county will chip in $250 million. In return, the Bills agreed to stay in Buffalo for 30 years.

“New Yorkers can rest assured that their investment will be recouped by the economic activity the team generates,” Hochul, who hails from Buffalo and is running for election this year to her first full term, said in a news release.

The governor will advance the proposal in the state budget, which is due April 1 and must be approved by the legislature. The Bills generate $27 million annually in direct income and sales taxes for New York, Erie County and Buffalo, and that revenue will grow to more than $1.6 billion over the 30-year lease, according to the statement.

The project would be funded through a mix of new and existing capital appropriations, according to Matt Janiszewski, a spokesman for Hochul. Erie County plans to use $75 million from its current-year budget surplus to fund its contribution and issue municipal bonds for the rest of its commitment, County Executive Mark Poloncarz at a news conference.

“I want to thank Governor Kathy Hochul for her strong negotiations,” Poloncarz said. “She’s a true blue Buffalonian. She understands the importance of the Buffalo Bills and she negotiated a fair deal for the people of New York state.”

Spokespeople for Assembly Speaker Carl Heastie and Senate Majority Leader Andrea Stewart-Cousins didn’t immediately respond to a request for comment.

Small Market

The Bills, who play in the NFL’s second-smallest television market after the Green Bay Packers, have played since 1973 in their current home, Highmark Stadium in Orchard Park, and the new stadium will be there as well. The team, which played in four consecutive Super Bowls in the early 1990s and never won, is the only NFL franchise that plays its home games in the state.

The team’s billionaire owners, Kim and Terry Pegula, had threatened to move the team without sufficient public funding for a new stadium.

Highmark Stadium in Orchard Park, New York.Photographer: Timothy T Ludwig/Getty Images
The Pegulas bought the Bills after the death of original owner Ralph Wilson in 2014. Terry Pegula founded natural gas producer East Resources. He sold the company off in multiple parts starting in 2010. His net worth is $8 billion, according to the Bloomberg Billionaires Index. He also own the Buffalo Sabres of the National Hockey League.

The combined amount of public funding provided the state and county for the new stadium will eclipse the $750 million that the NFL’s Las Vegas Raiders received from Clark County, Nevada to build the $2 billion Allegiant Stadium.

Cost Controls

Erie County will transfer ownership of the current stadium and adjoining practice facilities and office space to the state, which will own the new stadium and lease it to the Bills. The state and county can go to court to enforce non-relocation terms. The Bills will be responsible for all cost overruns associated with construction that aren’t caused by state or county government, Poloncarz.

The county won’t have any obligation to fund future operating or capital expenses, he said. The new stadium will likely open in 2026, Poloncarz said.

Economists who have studied public sports subsidies have found that the impact of new stadiums on the local economy is small. The benefits are exaggerated, they say, because consumers who spend money on sports would likely spend their money on other forms of local entertainment.

Public Benefit

However, Victor Matheson, an economics professor at College of the Holy Cross in Worcester, Massachusetts argues the benefits may justify covering part of the costs for some cities, noting that stadiums and sports franchises can be a source of civic pride and global publicity.

“A city such as Green Bay, Barcelona, or Manchester may get more national or international media mentions from their successful sports franchises than from all other sources combined,” he wrote in a 2018 paper.

Indeed, apart from the Bills, Buffalo is best known nationally as a rust-belt city with snowy winters. The team distinguished itself by making it into the NFL’s top tier in recent years, getting as far as the AFC Championship in January 2021 and the divisional playoffs in January 2022.

Bloomberg Markets

By Martin Z Braun

March 28, 2022, 1:05 PM PDT

— With assistance by Donald Moore

Bills Deal Renews Debate Over Public Dollars for Arenas.

ALBANY, N.Y. – New York looks poised to become the next place to give a huge subsidy to a professional sports arena, despite questions about whether the civic pride of having a team justifies giving so much public money to a private business.

Gov. Kathy Hochul proposed a deal Monday that would give the Buffalo Bills $850 million in public funds to help the team build a new $1.4 billion stadium. In return, the Bills would agree to play in Buffalo’s suburbs for at least 30 years.

The deal, which still needs approval from the state legislature, immediately renewed a debate about government’s role in supporting privately owned businesses.

Just three years ago, a deal to that would have given Amazon nearly $3 billion in tax and other incentives to build a headquarters for 25,000 workers in New York City fell apart amid a backlash from activists and progressive politicians who called it a giant corporate giveaway.

Some similar criticism rolled in over the Bills deal.

State Assemblymember Ron T. Kim, a Queens Democrat, used a curse word on Twitter to refer to the proposal. Sochie Nnaemeka, the director of the influential Working Families Party, called the deal “a continuation of trickle-down economic development schemes that have enriched wealthy investors on the backs of Black, brown, and working class communities.”

U.S. Rep. Thomas Suozzi, a Long Island Democrat running against Hochul, said he supported the idea of a new Bills stadium, but that it could be built without having New Yorkers “fork over their tax dollars to help a billionaire donor get even richer.”

A few barbs came from the right, too.

"I like the Bills as much as anyone but this is outrageous," said Republican state Sen. Mike Martucci, who represents a district in the Catskill Mountains and Hudson Valley. "Republicans are often criticized for being buddies with billionaires. What would you call this?"

The deal negotiated by the Hochul administration would require the Bills' owners, billionaires Terry and Kim Pegula, whose fortune is linked to natural gas fracking, to put up around 39% of the construction cost.

New York state taxpayers would pay $600 million, with Erie County, where the team is located, spending another $250 million.

Hochul, a western New York native and Bills fan, insisted the deal made good economic sense.

She also highlighted the intangible benefits of having pro sports in Buffalo – a rust belt city that the state has already spent hundreds of millions of dollars reviving following the decline of U.S. manufacturing in the 1970s and 80s.

It "goes to our identity," she told reporters Monday.

"We are known globally for being the home of the Buffalo Bills, and it's part of our local psyche, and it makes us so proud," Hochul said, adding, "that's not quantifiable."

That, probably more than anything else, is what has prompted numerous cities and states to put up big bucks for sports arena projects, either to keep teams from moving or luring them away from elsewhere.

Nevada poured $750 million into a new stadium to get the NFL's Raiders to move from Oakland last year. In Atlanta, the Falcons' owner said he's expecting to get as much as $700 million in public dollars from future tax revenues over coming decades as part of the deal struck to build the $1.5 billion Mercedes-Benz Stadium.

A number of cities and states have poured public money into arena deals, even to replace venues that are still relatively new.

New England Patriots owner Robert Kraft bucked the trend of taxpayer support by privately funding his new stadium in Foxborough, Massachusetts – after exploring plans to move the team to Boston; Rhode Island; and Hartford, Connecticut.

A more comparable market to Buffalo is Jacksonville, Florida, where the Jaguars TIAA Bank Field was built on part of the former Gator Bowl Stadium in 1995 at a cost of $134 million (about $368 million in today's dollars), with 45% of that money coming from the city. Last year, Jaguars owner Shad Khan unveiled a $450 million plan to redevelop the area around the stadium, with taxpayers providing $233 million in investments and incentives.

The promise of economic development tied to sports has also led numerous small cities and counties to invest public dollars in minor league teams.

Public officials often argue that they amount of tax dollars spent will be eclipsed be revenue brought in by a team, including taxes on player salaries, jobs created and tourism dollars spent.

That argument doesn't carry much weight with economists, who say decades of research shows sport stadiums don't do much to boost a local economy.

"This is one of those topics where you have almost universal agreement among economists: that stadiums really do not bring a significant financial benefit to the cities that house them," said Michael Leeds, an economics professor at Temple University.

Sports teams do bring in out-of-town fans who patronize local hotels and restaurants, but the jobs created and tax revenue generated rarely come close to the rosy projections, experts say.

"We don't want to kid ourselves," Leeds said. "What they do bring is very limited geographically and very limited financially."

Buffalo, the NFL's second smallest market, does draw some out-of-state fans, with southern Ontario, Canada, making up more than 15% of its season-ticket base.

Government handouts to big corporations, of course, aren't just for sports. Automakers, aerospace manufacturers, tech companies and others have gotten billions of dollars in tax breaks from U.S. states. New York state pledged more money to help build a Tesla solar panel factory outside Buffalo – $750 million – than it is giving to the Bills.

Smith College economics professor Andrew Zimbalist said some wealthy sports team owners have, in recent years, taken on a bigger percentage of upfront costs of new stadiums in response to public outcry over sweetheart mega deals.

"If you go back 25 years, you'll see that 70% of the funding was basically public," Zimbalist said.

The leaders of New York's Assembly and Senate, whose approval is needed for public financing on the Bills deal, have so far been silent, but Hochul looked to have gotten support from at least some top Democrats.

Senate Majority Leader Crystal Peoples-Stokes praised the deal and called it a "once-in-a-generation opportunity for advancement."

Pegula Sports and Entertainment executive Ron Raccuia, who represented the Bills in negotiations with the state and county, called the deal a "good investment for everyone."

"We are very thankful that the governor and county executive showed the leadership that they did. But I think people need to realize that we contribute a lot from a tax standpoint. Every dollar that goes into this stadium will be paid back," he said.

John Kaehny, executive director of the government-reform group Reinvent Albany, said that while some downstate progressives were opposed to public funding for a Bills stadium as "a gross corporate handout," they might lack the political traction to block the deal.

Associated Press

March 31, 2022

NFL's Bills Take $850 Million in Record Taxpayer Outlay for Stadium.

New York state and local government will contribute $850 million to help the NFL's Buffalo Bills construct a new $1.4 billion stadium in western New York. If the proposed deal stands, it would be the biggest government contribution to a new sports stadium, surpassing $750 million committed by Las Vegas for the Raiders.

New York Gov. Kathy Hochul announced the agreement this morning. New York state will contribute $600 million in funds while Erie County will give $250 million. The team will foot the tab for the balance, including any cost overruns, with the help of a loan to the team approved by NFL owners in recent days. In return, the Bills agree to remain in Buffalo for 30 years, having to repay all public monies in the first 15 years, with a declining repayment amount afterwards.

"While there are a few more yards to go before we cross the goal line, we feel our public-private partnership between New York State, Erie County led by County Executive Mark Poloncarz, and the National Football League will get us there," Bills owners Kim and Terry Pegula said in a press release from the governor's office.

The Bills are the only NFL team to operate in New York, with the Jets and Giants training and holding games in New Jersey. That duo's MetLife Stadium was built at a cost of $1.6 billion without any direct public financing, although some state agencies surrendered fees from game-related business they had collected previously. The NFL's newest stadium, SoFi in Los Angeles, was built at a cost of $5 billion without taxpayer support.

For Buffalo, the public contribution to the Bills facility is 61% of the projected price tag. In the instances of public finance contributions to new sports facilities since the Great Recession began in 2008, the taxpayer percentage has been about 33%, according to Victor Matheson, an economist at Holy Cross.

"As soon as you see handouts to one side, everybody has a good argument as to why they're not getting their own stadium," Matheson said. "The Giants and Jets play in a stadium with almost no public money in it. Their cross-division rivals, the Patriots, put almost no public money into Gillette. If I'm Rochester, I'd say, 'I could use a new soccer stadium—what's holding us back?'"

Erie County executive Mark Poloncarz said the contribution by the county is a one-time payment, with new use taxes on stadium parking and other game-day fees going into a capital improvement fund. "In effect we are getting out of the football business," Poloncarz said at a press conference this morning. "Erie County provides over $2 million annually on capital improvements. Erie County will no longer be providing assistance."

Erie will take $75 million in last year's budget surplus, with the rest to be paid from county bonds to be issued. A spokesperson for Gov. Hochul didn't immediately respond to a request for how the state is financing its contribution.

Poloncarz framed the taxpayer contribution as a good deal for the county, noting the final public payment is less than amounts floated in the media in recent weeks.

"Go Bills, go win that Super Bowl," Poloncarz said. "This is a very good day. People were questioning if we were going to get a deal done and if we were going to give them a billion dollars or more for the stadium."

sportico.com

bu Brendan Coffey

March 28, 2022

How Could a Buffalo Bills Stadium be Financed? Other NFL Deals Provide Clues.

Buffalo Bills owners Terry and Kim Pegula will be making an equity injection into a new stadium project in Orchard Park, which NFL owners are slated to vote on Monday.

But the bulk of the construction project to replace Highmark Stadium is likely to be paid for with help from New York State and Erie County, according to initial reports.

So where exactly will the state and Erie County come up with the funds to pay it?

"We want to see the Bills get a new stadium and stay in Buffalo," Working Families Party spokesman Ravi Mangla said, "but to give $1 billion to a family with a billion dollars already does not seem like a smart or prudent use of public funds."

More details are expected to be revealed as Gov. Kathy Hochul and state legislators finalize the state budget, which is due April 1. Negotiations between government representatives and the Bills' parent company, Pegula Sports and Entertainment, are wrapping up on the proposed $1.4 billion open-air stadium.

Until then, sports economists say they believe the plan will likely follow a similar approach to other stadiums built downstate and recent NFL stadiums constructed using substantial public funds.

Those past stadium deals leave clues for what might have been on the table during negotiations over a new home for the Buffalo Bills.

"I think the days of granting somebody an outright award of money to go build a stadium are gone. But there are still many ways that local and county governments and state governments can help," said New York City attorney Daniel Etna, who has been involved in stadium deals and represented a potential buyer for the Bills in 2014.

In addition to direct construction or maintenance costs paid for by the state and Erie County, there will likely be bonds issued by Erie County to build the stadium, predicts Robert Silverman, a University at Buffalo professor of urban and regional planning.

Other publicly financed stadium deals across the country have partially relied on revenue sources that have included new taxes on hotel rooms, rental cars, event tickets and other tourism items related to stadium events.

"Basically, the state and county would earmark revenue to retire debt, and it all works if the new stadium generates additional revenue and economic growth," Silverman said.

How Las Vegas and Minneapolis crafted deals

Since the Giants and Jets completed their new NFL stadium in 2010 in East Rutherford, N.J. – built mostly using private funds – there have been two NFL stadiums built using substantial public funding, as will likely be the case in Buffalo.

The amount of public funding provided by the government for a new Bills stadium may eclipse the previous high of $750 million given to the Las Vegas Raiders to build their stadium completed in 2020.

That was for the $1.9 billion Allegiant Stadium as the franchise moved from Oakland at the time. The Raiders contributed $1.15 billion for the build.

The Buffalo News has previously reported that NFL owners are expected to vote on Monday on a maximum $200 million loan to the Pegulas for a new Buffalo Bills stadium. Up to $150 million of the loan is forgivable, repaid through the visiting teams' share of Bills ticket revenue over 25 years, and is contingent on both public financing and the Pegulas contributing at least $200 million of their own equity to the project, according to the terms of the league's "G-4" loan program, which helps fund stadium construction and renovations.

That would leave about $1 billion to be financed through public sources for the Buffalo Bills deal, although Erie County Executive Mark Poloncarz pushed back on that figure last week.

The public portion of the funding for Allegiant Stadium came from municipal bonds issued by Clark County, backed by the proceeds of a new tax on hotel rooms in the Las Vegas area that began to take effect three years before the stadium's construction was finalized, according to reports.

For the $1.08 billion U.S. Bank Stadium in Minnesota, finished in 2016, the state's share of the stadium project was nearly half, at almost $500 million. It was funded mostly by proceeds from electronic pull tab gaming and a corporate tax.

Smaller markets have less leverage

Government subsidies remain a big part of some of these stadium deals as teams, especially in smaller professional sports markets like Buffalo, can hold much of the leverage in negotiations.

The Bills are the second smallest market in the NFL and Buffalo is the 49th largest metropolitan area in the U.S., according to the Census, so if government officials tried playing hardball with the team's ownership on the reported $1.4 billion stadium deal, there are at least a dozen larger cities that could have stepped in as a potentially desirable location to move.

"These government packages aren't one size fits all," said Etna, the partner and co-chair of the sports law group at New York City law firm Herrick. "It's a facts and circumstances thing."

Tax generation cited by PSE report

An early report commissioned by Pegula Sports & Entertainment noted that the Bills organization has a more than $200 million payroll, contributing taxes from Bills players and other employees. The Bills' payroll in 2019 was nearly $259 million, which was worth almost $20 million in state income taxes, according to the economic impact study.

Victor Matheson, a professor and sports economist at the College of the Holy Cross, said New York has one of the highest athlete and entertainer traveler taxes in the country, which many states have now adopted. Coupled with an already high state income tax rate, it generates sizable revenue.

"With New York's relatively high-income tax rates … and in a world where you have some pretty high salaries and an entertainment tax for visiting entertainers, that's quite a bit of money," Matheson said.

Yankee Stadium built with tax-exempt bonds

There are other ways governments can assist in a stadium project without direct subsidies, according to Etna.

Many stadium deals have used tax-exempt municipal bonds, allowing a large amount of tax revenue that would have been collected by the federal government to go toward construction costs.

According to a report from Brookings Institute, the $2.5 billion Yankee Stadium, completed in 2009, was financed using $1.7 billion in municipal bonds issued by the City of New York. The think tank estimated that the federal government subsidized $431 million of the project through the loss of tax revenue.

“They were satisfying the debt service on publicly issued bonds by a governmental entity that had the tax-exempt rate, rather than the taxable rate,” Etna said of the tax savings received by the Yankees.

The Raiders received $700 million in debt financing from the State of Nevada but it was under a few conditions, according to Etna.

One was that the Raiders allow the University of Nevada, Las Vegas to use their new stadium. The agreement required the Raiders putting in a turf field so that games could be played on consecutive days, if need be, since the university plays most of its games on Saturdays. The Raiders originally wanted a grass field but changed course because of this agreement, Etna said.

Big stadium lenders like Bank of America or Goldman Sachs can also be involved in helping finance a stadium.

It’s how a portion of both Yankees Stadium and Citi Field for the Mets, as well as some other stadiums, were paid for in past projects, according to Etna.

However, government entities typically would prefer not to worry about another creditor or non-governmental entity in the deal to avoid inter-creditor issues or loss of control over the debt.

Instead, they sometimes partner with other state entities in helping to fund a stadium, such as, in New York, the Empire State Development Corp.

Other options seen as spurring development

Also, the state could provide tax increment financing to build up development projects around the stadium, according to Matheson of Holy Cross. He described this as a better tool than direct subsidies and said it provides incentives for teams to develop the area around the stadium.

This could be important for the Bills in Orchard Park, where there has been little spinoff development around the stadium since it was built about five decades ago.

“It’s certainly an option and a much better one than a flat sales tax for the state or for Buffalo,” Matheson said.

The Buffalo News

by Michael Petro

Mar 27, 2022

Buffalo Bills Strike Deal for Taxpayer-Funded $1.4 Billion Stadium.

The agreement calls for $850 million in New York State and local funding, the largest taxpayer contribution ever for a National Football League facility.

ALBANY, N.Y. — New York State officials have reached a deal with the Buffalo Bills to use $850 million in public funds to help the team build a $1.4 billion stadium — the largest taxpayer contribution ever for a pro football facility.

Under the deal, the state would finance $600 million of the construction costs, while Erie County, where the stadium will be built adjacent to its current home, would cover $250 million. The remainder would be financed through a $200 million loan from the N.F.L. that was approved on Monday, plus $350 million from the team's owners.

The public dollars, which still need to be approved by lawmakers, would cover about 60 percent of the projected construction costs, a percentage that is slightly lower than in recent stadium deals in similarly small markets in the N.F.L. But the overall subsidy is the largest amount earmarked for an N.F.L. stadium since Clark County in Nevada issued $750 million in bonds to help pay for the construction of a new arena before the Raiders moved to Las Vegas in 2020.

Continue reading.

The New York Times

By Luis Ferré-Sadurní

March 28, 2022

Fitch: Third Kentucky Wired Budget Dispute Reveals Continued Political Tensions Over P3

Fitch Ratings-New York-28 March 2022: Fitch Ratings anticipates that a budget dispute around the Kentucky Wired public private partnership (PPP) project will be resolved before the 2022 Kentucky legislative session's end, but the return of the issue shows that political tensions related to the 2015 PPP (P3) project remain active and ongoing.

Fitch expects the commonwealth's ultimately enacted budget will allow it to meet various contractual obligations for the Kentucky Wired project over the next biennium, including availability payments. An unexpected failure to provide for the necessary funding could place the ratings of both related project debt and the commonwealth itself at risk.

Fitch rates the Kentucky Wired project bonds 'BBB+'/Outlook Stable and rates the commonwealth's counterparty obligation to provide periodic payments to cover operating and financing related costs for the project 'A'/Outlook Stable using its "Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria". The counterparty rating is notched down from Kentucky's 'AA-'/Outlook Stable Issuer Default Rating (IDR) given the strength of the commonwealth's legal commitments under the project agreement. Kentucky undertook the Kentucky Wired PPP in 2015 to build state-wide broadband access, the first such state-wide effort in the country.

There have been two prior budget disagreements in the Kentucky legislature since the project began. The first was in 2018 and the second in 2020. Both occurred in years in which Kentucky's state elected leaders were required to formulate and adopt a biennial budget.

The governor's executive budget for the fiscal 2023-2024 biennium recommends roughly $40 million in Kentucky Wired funding for each fiscal year. On Jan. 20, 2022 Kentucky's House passed its own budget bill (HB 1) for the upcoming biennium that included funding for Kentucky Wired at roughly the levels requested by the governor. The Senate's version of the budget bill, passed on March 9 by that chamber, did not include an appropriation for the PPP availability payments, however.

The House and Senate are entering conference committee discussions to reconcile various differences in their approved budget bills, including the Kentucky Wired funding. Fitch anticipates the joint Free Conference Committee could emerge with a final budget bill that both chambers approve as soon as the end of this month. Kentucky's legislative session ends on April 15.

The budget dispute is notable in that it comes amidst an improving commonwealth fiscal situation. Kentucky concluded fiscal 2021 with a $1.1 billion general fund surplus due to unexpectedly strong revenue performance. Solid revenue growth in fiscal 2022 is putting the state on track to conclude the current fiscal year with a $1.9 billion surplus. The two prior Kentucky Wired-related budget disputes occurred when Kentucky had fewer fiscal resources.

In addition to the potential effect on its credit ratings, a failure by Kentucky to appropriate sufficient funds in its biennial budget to cover Kentucky Wired project payments and meet its obligations under PPP contracts would create uncertainty among market participants, including contractors and investors, regarding the viability of the PPP model for financing infrastructure in Kentucky.

Renewed and persistent opposition to the project by members of the legislature, coupled with repeated opposition to biennial appropriation requests, could indicate broader philosophical opposition in the Kentucky legislature to PPP projects that require support from general fund appropriations.

For additional information on the project bonds, please see "Fitch Affirms Kentucky Wired Infrastructure Co's Senior Rev Bonds at 'BBB+'; Outlook Stable" published on Feb. 18, 2022 and available on 'www.fitchratings.com'.

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[Detroit Receives Social Bond of the Year Award.]

Detroit receives Social Bond of the Year award for its unique program that targets blight in neighborhoods

• Environmental Finance names the City's 2021 Neighborhood Improvement Bonds the Social Bond of the Year in the US muni category
• The award cites the uniqueness of Detroit's $175 million neighborhood improvement bond program that has led to 1,647 demolitions and 467 home preservations
• Detroit's use of social bonds garnered strong investor interest, setting a growing trend

The City of Detroit has won another award for its unique bond program that targets blighted houses with either demolition or preservation. Environmental Finance has named Detroit's Unlimited Tax General Obligation Bond series Social Bond of the Year in the US muni bond category. This is the second such award in less than a year. In November, Bond Buyer selected Detroit's Proposal N voter approved bond program as Midwest Bond of the Year, citing its rare social use.

Detroit sets trend for social bond use
In 2021, Detroit was pioneering in issuing social bonds to fund neighborhood improvement through the demolition of blighted houses while preserving salvageable structures. This groundbreaking bond series attracted major investor interest, selling $175 million in bonds setting-off a trend that has grown. According to an S&P Global Ratings report, 2021 saw $188 billion of total Social Bond issuance, nearly a 10x increase from 2019 when total issuance was just over $200 million. Early on Detroit's program was one of very few examples—if any—of municipal bonds being used for blight remediation.

Proposal N's demolitions are in addition to the more than 15,000 blighted properties Detroit has torn down using Federal Hardest Hit Fund dollars. To date, Proposal N has led to 1,647 demolitions, with over 1,000 more under contract, and 653 in the demolition pipeline. Meanwhile, the stabilization of 467 salvageable homes has been completed, with another 903 under contract.

Investor demand soars for Detroit bonds
Detroit's robust financial performance in combination with the compelling use of bond proceeds resulted in strong investor demand in the bond sale. More than 60 institutional investors placed orders, many of which were repeat investors that purchased the City's 2020 and 2018 bonds demonstrating their continued support and interest in the City. Total orders for the 2021 Social Bonds were so high that they could have been sold 20x over. That overwhelming level of demand allowed the City to achieve a much lower interest rate than it had initially expected and will translate to much lower repayment costs over time for Detroit taxpayers.

Detroit's Chief Financial Officer, Jay Rising noted, "the extraordinary interest we saw in Detroit's inaugural Social Bond offering is a byproduct of its purpose. It acknowledges the fact that the City's credit relies upon our social environment, and that credit will continue to improve as we continue reinvestment in our City to make it beautiful and safe for residents and a destination of opportunity. Projects that create a positive social impact reward investors."

OFFICE OF THE CHIEF FINANCIAL OFFICER

APR 01, 2022

Citi to Lead $1 Billion DFW Airport Bond Sale in Texas Comeback.

- **Deal would be biggest since gun-law temporarily shut bank out**
- **Bank is looking to rebuild its standing in the Lone Star state**

Citigroup Inc. is underwriting a $1.2 billion bond sale for the Dallas Fort Worth International Airport, the largest deal it has managed since reentering the Texas municipal-bond market after being temporarily sidelined last year over the bank's firearms policy.

The transaction would be a major win for the bank's public finance business, which has seen its standing in the Lone Star State slide after a GOP law sought to keep companies that "discriminate" against firearms entities from working in Texas. Citi, which limits its business with gun retailers but has repeatedly said it complies with the law, has only underwritten four Texas deals amounting to $216 million since the legislation went into effect in September.

The bank was ranked as the 22nd biggest underwriter of Texas municipal-bond deals over the seven-month period ended March 31, down 17 slots from the same period a year earlier, according to data compiled by Bloomberg. Meanwhile other large banks including Bank of America Corp., Goldman Sachs Group Inc. and JPMorgan Chase & Co. haven't underwritten a bond deal by a Texas city or the state during that time.

It hasn't been easy for Citigroup to rebuild its business in the state. It lost two major bankers, Mario Carrasco and Mark Tarpley, to competitors. Even though Citi provided a written verification of its adherence to the law, it has been accused of not being able to comply by industry group National Shooting Sports Foundation. The group also pleaded its case to the Texas Attorney General's office, which oversees bond deals.

Still Pushback

The entity had provided details of the bank's "discriminatory policies against members of the firearm industry" to Attorney General Kenneth Paxton, said Lawrence Keane, senior vice president and general counsel for the industry group, in an emailed statement last week.

"We are confident based on the undisputed facts Attorney General Paxton will find Citigroup's filed an invalid verification and is ineligible under Texas law to receive taxpayer funded contracts," he said.

Paxton's office, in January, had asked Citigroup for more information about its gun policies. The Texas Attorney General did not respond to requests for comment.

Citigroup has repeatedly said it doesn't see its policies as violating Texas's new law. The bank "simply requires our clients to use best practices when selling firearms," it said in a June blogpost. It also said it continues to work with retail sector clients that sell firearms in Texas. A spokesperson for Citigroup also declined to comment further.

Banks' public-finance businesses face a growing threat from legislation backed by the National Shooting Sports Foundation seeking to punish Wall Street for taking on gun policies. Bills proposed by Republican lawmakers in Arizona and Oklahoma have advanced in the state legislatures there this year.

Borrowing Spree

There's no mention of the Texas law, known as Senate Bill 19, or concerns about the underwriter's compliance in the bond documents. A spokesperson for DFW Airport declined to comment.

Meanwhile, the DFW Airport is in the midst of a borrowing spree. It plans to sell $3.1 billion of debt between the 2022 and 2025 fiscal years in part to help fund a $5.9 billion capital program designed to equip the facility to support more passengers, according to investor roadshow documents. The population of the DFW area is expected to surpass that of Chicago's by about 2033, according to the documents.

The $1.2 billion deal, slated to price as early as this week, is federally taxable. Its proceeds will be used to finance improvements to the airport and make a payment to a reserve fund, the preliminary offering documents say.

The new deal is rated A1 by Moody's Investors Service, A+ by S&P Global Ratings and Fitch Ratings and AA by Kroll Bond Rating Agency, LLC. S&P upgraded the airport's credit in March, the company wrote in a report.

"The upgrade reflects our view of DFW's demonstrated financial resilience and rate-setting flexibility during a period of materially depressed activity, along with strong passenger recovery trends," said S&P credit analyst Ken Biddison in a statement.

Bloomberg Markets

By Danielle Moran and Amanda Albright

April 4, 2022

Firearm, Fossil Fuels Laws Feed Uncertainty in Texas Muni Market.

The Texas municipal bond market is still trying to sort out new state laws that apply litmus tests for banks and others seeking contracts with governmental entities amid expectations that more restrictions tied to corporate policy decisions are coming, according to speakers at last week's Bond Buyer Texas Public Finance Conference.

The Republican-controlled legislature last year passed measures that require companies, including investment banks, to verify in bond-related and other contracts they do not discriminate against the firearm industry or boycott fossil fuels. Those actions followed a 2017 law to prohibit the state from contracting with entities boycotting Israel that became the target of ongoing litigation claiming it violates First Amendment rights to free speech.

"We've seen now the use of the state and local government contracting power as a way to implement those policy changes that (lawmakers') constituencies favor," James Hernandez, senior counsel at Orrick Herrington & Sutcliffe, said at the conference. "I think we?ll see more of that in 2023."

Since the laws took effect Sept. 1, some big banks have stepped away from or reduced their activity in the Texas muni market where issuance totaled $52.57 billion in 2021, trailing only California for debt issued by a state and its entities.

"Right now what's happening is there's sort of an overreaction," Hernandez said. "Everybody is asking for verification regardless of whether the contract is covered or not."

Senate bill 19, the firearm law, is not “a flat-out prohibition on companies having gun policies,” he said. Those policies cannot deny financing for entities involved in the manufacturing or sale of guns, but companies can impose restrictions or requirements before entering into a financing transaction, he added.

Both SB 19 and SB 13, the fossil fuels bill, cover contracts valued at $100,000 or more and paid in whole or part with public funds from Texas state agencies, counties, cities, public school districts, and special-purpose districts or authorities. Nonprofit corporation issuers of conduit deals for health facilities, higher education, charter schools, and industrial development are not covered, according to Hernandez.

An argument could be made that the value of a bond purchase agreement should be the underwriter discount and not the par value of the bonds as the Texas attorney general has contended, he added.

Verifications must cover the life of the contracts, which could be longer-term in the case of certain agreements.

“For contracts like credit facilities and swaps, the company needs to be comfortable ? making that verification statement for the life of the contract or potentially the contract could become void or voidable if the statement no longer becomes true during the term of the contract,” Hernandez cautioned.

Bidders for escrows, repurchase agreements, and guaranteed investment contracts may not be covered by the laws given previous guidance from the attorney general that investments are not contracts for the purchase or sale of goods, he said, adding however that bid documents will probably specify if verifications are required.

Clayton Holland, a partner at Hunton Andrews Kurth, said there are parts of SB 13, which deals with state investments in addition to contracts, that are unclear and that the Texas attorney general is preventing firms from offering their interpretation of what the law may mean.

In a Sept. 22 letter to bond counsel, the head of the attorney general’s public finance division said that under both laws firms are required to submit a standing letter for covered contracts, but specified the letter “may not include qualifying language of what the company understands the law to require or not require; nor may the company state what it understands undefined terms to mean or defined terms to not mean.”

“You can’t put your gloss on it. You’re going to be bound by whatever the law is, as interpreted by those enforcing it,” Holland said during a conference panel.

Meanwhile, Texas Comptroller Glenn Hegar has sent letters to financial companies asking them to clarify their fossil fuel investment policies and procedures and provide a list of mutual funds or exchange-traded funds in their portfolios that prohibit or limit fossil fuel investment. Holland said the list of boycotting companies that Hegar is required to compile for disinvestment purposes should provide some insight into how the law is being applied.

Colin Parrish, founding partner of Statehouse Consultants, told the conference that lawmakers could opt to clarify aspects of the laws, as well as close loopholes to make them more stringent during the 2023 legislative session, which begins in January. They may also choose to add government contract restrictions for other types of company policies that concern their voters.

In response to Citigroup’s announcement in a March 15 proxy statement that it will begin to provide travel benefits for employees seeking reproductive healthcare, a Texas lawmaker said he will introduce a bill “that bars local governments in Texas from doing business with any company that pays the abortion related expenses of its employees or that provides abortion coverage as an employee benefit – regardless of where the employee is located or where the abortion is performed.”

As of Sept. 1, Texas banned abortions after a fetal heartbeat is detected and allowed private citizens to sue an abortion provider or person who aids a woman in obtaining an abortion.

“Now you’ve taken Israel, firearms, fossil fuels and you’ve thrown an issue of abortion on that and that is going to be every single thing that people want to start pushing for so they could go back to their voters and say we’re protecting you for these things,” Parrish said.

JPMorgan Chase (JPM), Bank of America (BAC), and Wells Fargo (WFC) were identified by bill sponsors as targets of the firearm legislation when it was debated in April 2021.

For example, Citigroup in 2018 announced a U.S. commercial firearms policy that requires new retail sector clients to adhere to “best practices” of prohibiting firearm sales to someone who has not passed a background check or is under age 21, and not selling bump stocks or high-capacity magazines. Its winning bid for a Texas school district bond issue last fall led a firearm industry trade group to send an objection to Texas Attorney General Ken Paxton.

Citigroup and Wells Fargo have remained active in the Texas muni market and were among 38 bond firms that since September submitted letters for the benefit of underwriting syndicate representatives verifying they do not discriminate against the firearms industry or boycott energy companies, according to a list posted on the Municipal Advisory Council of Texas website. Bank of America (BAC) and JP Morgan Chase, along with Goldman Sachs (GS), which withdrew from a deal after the firearm law took effect, have largely been inactive.

In a Bond Buyer interview last week, Hegar acknowledged that while having fewer players in the market potentially increases the cost of issuance, the absence of bigger underwriters could spark competition from smaller investment banks although SB 19 exempts the state’s tax and revenue anticipation note issues from the rules, under certain circumstances.

Hinojosa, Jr., chairman, president, and chief executive officer of Estrada Hinojosa & Co., who co-chaired the conference, said, while Texas-based banks and regional firms are doing a “very good job” getting deals done, uncertainty and volatility are making it difficult to find buyers for munis.

“In the market that we?re in today, it’s harder,” he said. “That’s why I want to have everybody come and dance.”

By Karen Pierog

BY SOURCEMEDIA | MUNICIPAL | 12:51 PM EDT

[Fitch: Texas Public Power Slowly Recovering from 2021 Winter Storm; Winterization Crucial]

Fitch Ratings-Austin/New York-28 March 2022: Texas public power and electric cooperatives that operate within the Electric Reliability Council of Texas (ERCOT) are slowly recovering from 2021’s devastating winter storm. Most public power and electric cooperative utilities are no longer in danger of immediate rating downgrades, according to a new Fitch Ratings report.

Operating risk will remain elevated for ERCOT utilities, and Fitch will continue to factor it into individual credit profiles. However, the utilities have largely financed storm costs long-term, raised rates where needed, and taken steps to reduce market exposure. This points to an improving credit environment that could stabilize Rating Outlooks over time.

“The winterization of generation assets, market reforms and steps taken by the utilities to hedge supplies should materially reduce financial exposure to future winter storm events,” said Senior Director Kathy Masterson. “Similar outage events could still occur in ERCOT, but financial costs would be reduced.”

Prioritization, or lack thereof, of winterization upgrades to the natural gas supply chain remains the biggest outstanding risk.

The natural gas industry, regulated by the Texas Railroad Commission, is not yet required to winterize infrastructure to the same standards the Public Utility Commission of Texas requires for electric generation. Though the ERCOT market is largely comprised of natural gas and wind, gas represented the largest share of generation capacity that failed to produce during the 2021 winter storm. Recently adopted legislation now requires critical natural gas facilities to register as critical load with their local utility.

“Designating these facilities as critical infrastructure similar to hospitals and police stations should prevent cuts in power supply from reoccurring,” said Masterson.

Fitch plans to review its ERCOT utility ratings in the coming months. ‘Reforms Could Stabilize Texas Public Power and Cooperative Rating Outlooks’ is available at ‘www.fitchratings.com’.

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S&P U.S. Local Governments Credit Brief: Texas Counties And Municipalities

Overview

Texas counties and municipalities have demonstrated generally stable credit quality in recent years, despite the onset of the COVID-19 pandemic, strong winter storms that have stressed the state's power grid, and hurricanes. An expanding population, especially in the concentrated metropolitan areas of Austin, Dallas-Fort Worth, Houston, and San Antonio, has generally benefited the state, as well as counties and cities. Growing populations have spurred development, subsequent rising market values, and increases in sales tax collections. A surge in market values has resulted in higher property taxes and along with other stable revenue streams has allowed for stable financial performance and healthy reserve positions. However, with growth in population comes growth in service demands and the need for debt issuance to fund infrastructure. Overall, Texas local governments have higher-than-average debt and fixed cost burdens when compared with national medians.

S&P Global Ratings maintains ratings on nearly 400 cities and more than 100 counties in Texas. Overall credit quality remained stable in 2021, with 12 downgrades and six upgrades combined between the two sectors. Despite continued economic disruptions related to the pandemic, Texas cities' and counties' key credit factors were stable. Market value growth and steady finances supported generally stable ratings. Economically sensitive revenues, such as sales taxes, on the whole were stable, in part thanks to population growth.

Continue reading.

23 Mar, 2022

S&P U.S. Local Governments Credit Brief: Texas School Districts

Overview

Continuing a pattern of stable credit trends, S&P Global Ratings expects Texas schools' credit quality to remain comparatively stable in the near term. Underpinning our assessment are growing tax bases, enrollment, income and wealth levels, as well as predictable state funding and maintenance of typically very strong reserves.

S&P Global Ratings maintains general obligation (GO) ratings on 606 school districts in Texas. Currently, 74% of Texas school districts are in the 'A' category, 25% are in the 'AA' category, and less than 1% have debt rated in the 'BBB' category or lower. Additionally, all but 1% of ratings have a stable outlook.

Continue reading.

24 Mar, 2022

Tennessee Valley Authority And Its Local Power Companies: A Symbiotic Relationship Underpins Credit Quality

Key Takeaways

- Tennessee Valley Authority (TVA) provides power to 153 local power companies (LPCs), 16 of which are rated by S&P Global Ratings. In evaluating LPC credit fundamentals, we consider the profile of TVA's generating assets, fuel mix, wholesale rates, and fixed cost of power; key LPC enterprise attributes include largely residential bases, below-average income levels, and competitive retail rates.
- The TVA LPCs rated by S&P Global Ratings have a modal rating of 'A+', mirroring the modal rating for the universe of public power utilities that we rate. Since 2018, we have lowered the ratings on 10 of the 16 LPCs. The bulk of the rating actions were taken following the revision of our retail electric and gas criteria in September 2018; only two have been taken in the past year, suggesting stabilizing credit quality.
- TVA's service area is delimited by the TVA Act, and the anti-cherry-picking provision provides a barrier to entry for other suppliers by preventing the use of the TVA transmission system to serve LPC load. Nevertheless, TVA's largest LPC, Memphis Light, Gas and Water (MLGW), which is on the periphery of the TVA service area, is considering other power supply options. If MLGW leaves TVA, this could lead to higher fixed costs for the remaining LPCs.
- We view TVA as a credit-supportive wholesale power provider to its LPCs, as evidenced by its offer of longer-term contracts at a discount, its goal of stabilizing wholesale rates, its efforts to provide financial and operational flexibility to the LPCs, and its provision of temporary power bill credits during the COVID-19 pandemic.

Continue reading.

31 Mar, 2022

Chicago Transit to Sell Debt Backed by Higher Online-Sales Taxes.

- **CTA scheduled to sell $344.6 million in bonds on March 23**
- **Buyers must be lured with higher yields: Lord Abbett**

The Chicago Transit Authority is returning to the $4 trillion municipal-bond market after nearly a year to sell debt as yields climb higher amid market volatility.

Why It's Noteworthy

The second-largest transportation system in the U.S. is scheduled to sell $344.58 million of tax-exempt second lien bonds, backed by sales taxes in a negotiated deal on Wednesday, according to bond documents. The proceeds will be used for capital projects and to refund draws on its credit line.

The agency's deal size may increase to $350 million, according to preliminary pricing on Tuesday viewed by Bloomberg News. The spread over benchmark muni AAA securities ranged from 94 basis points above the MMD curve on debt maturing in 2046 with a 5% coupon to 125 basis points on debt maturing in 2057 with a 4% coupon, according to the preliminary pricing.

The transit system in Chicago relies on sales taxes to service both first- and second-lien loans before tapping general funds. Total 2021 sales taxes of more than $866 million were nearly 27% above 2020 and almost 16% higher than in 2019, according to the CTA.

Higher collections from recreational cannabis sales and a new tax levy on online retailers, which came into effect in January 2021, helped bolster revenue despite ridership taking a hit during the pandemic, budget documents show.

Outlook

S&P Global Ratings on March 10 assigned an A+ rating to the bonds with a stable outlook.

"A strong and swift economic recovery, along with increased tax collections driven by statutory changes that increased online sales tax collections, led to an extraordinary increase in pledged revenue for fiscal 2021," Andrew Bredeson, an analyst for S&P, said in the report.

Market View

The transit authority last came to market in mid-2021, selling nearly $121 million in bonds with a top spread of 33 basis points and a 5% coupon on debt maturing in 2028. Market technicals last year were marked by record inflows, with investor demand outpacing the supply of bonds issued.

In contrast, investors this year are seeking defensive positions amid rising interest rates, inflation and a war in Ukraine.

"Every deal is a little more challenged for its pricing just because of the outflows," said Daniel Solender, director of tax-free fixed income for Lord, Abbett & Co.

Issuers from Chicago and Illinois may also need to provide more incentives — such as higher yield — to attract buyers, given the strains on the credit quality of the city and state, Solender said. Illinois has the lowest rating among U.S. states, and that may add pressure to CTA's deal, he added.

Concerns including crime and uncertainty around when workers will fully return to offices may also impact both ridership and the economic rebound of the region. While ridership is expected to rise to 251.2 million in 2022 from 196 million in 2021, it is still muted compared to 455.7 million in 2019, the bond documents show. The city is increasing the number of officers, security guards on trains, buses and stations to reduce crime and make passengers feel safer, Chicago Mayor Lori Lightfoot said on March 9.

"The challenge is that everything in the Chicago region has to have a little more yield than the rest of the market given all the issues they are working through," Solender said.

Bloomberg Markets

By Shruti Singh

March 22, 2022

[Buffalo Bills Strike Deal for Taxpayer-Funded $1.4 Billion Stadium.]

The agreement calls for $850 million in New York State and local funding, the largest taxpayer contribution ever for a National Football League facility.

ALBANY, N.Y. — New York State officials have reached a deal with the Buffalo Bills to use $850 million in public funds to help the team build a $1.4 billion stadium — the largest taxpayer contribution ever for a pro football facility.

Under the deal, the state would finance $600 million of the construction costs, while Erie County, where the stadium will be built adjacent to its current home, would cover $250 million. The remainder would be financed through a $200 million loan from the N.F.L. that was approved on Monday, plus $350 million from the team's owners.

Continue reading.

The New York Times

By Luis Ferré-Sadurní

March 28, 2022

[Texas Lawmaker Warns Citigroup Against Paying for Out-of-State Abortions.]

A state representative threatened to introduce legislation that would bar local governments from doing business with companies that had such policies.

A Texas legislator warned Citigroup on Friday that he would introduce a bill to prevent the bank from underwriting municipal bonds in the state unless it rescinded its policy covering travel expenses for employees who go outside their state to seek an abortion.

State Representative Briscoe Cain, a Republican from the Houston area, [wrote] on Facebook and Twitter that the bill would bar local governments from doing business with any company "that pays abortion-related expenses of its employees or that provides abortion coverage as an employee benefit." He said he had sent a cease-and-desist letter to Citigroup's chief executive, Jane Fraser, calling the policy a "misuse of shareholder money."

Citigroup stated in a filing on Tuesday that it would provide travel benefits to employees seeking abortions outside their state, "in response to changes in reproductive health care laws in certain states." Last year, Texas enacted a law that bans abortion after about six weeks of pregnancy. The law took effect in September.

Citigroup has 8,500 employees in Texas. Other companies, including Salesforce and Uber, have also announced policies in opposition to the abortion law.

Mr. Cain also vowed to propose legislation that, if passed, would authorize district attorneys from anywhere in the state to prosecute a company that violated the abortion law if the local district attorney did not take action.

Representatives of Citigroup could not be reached for comment Friday night.

The New York Times

By Coral Murphy Marcos

March 18, 2022

[Citi Bond Business Draws Warning in Texas Over Abortion Help.]

- **Conservative lawmaker sends cease-and-desist letter to bank**
- **Risk to Citi may increase if Supreme Court guts abortion right**

A conservative Texas lawmaker warned Citigroup Inc. that it could be barred from underwriting municipal bonds and that company officers and employees could face criminal prosecution unless the bank backs off its policy to pay for workers to travel outside of Texas for an abortion.

Texas state representative Briscoe Cain, a Republican, said Friday he sent a cease-and-desist letter to Citigroup Global Markets Chief Executive Officer Jane Fraser. He also sent letters to leaders of some major non-profit organizations that have raised millions to pay travel costs for women seeking abortions outside Texas.

Citigroup instituted its new policy in reaction to a Texas law that forbids anyone from "aiding and abetting" an abortion after cardiac activity can be detected in the fetus. That usually occurs at around six weeks of pregnancy, before most women realize they're pregnant.

Since Texas's abortion ban took effect Sept. 1, abortions in the state have plunged roughly 60%, according to statistics provided by abortion advocates. However, women with access to time and resources have crossed state lines to reach clinics elsewhere. Abortion providers in adjacent states report being overwhelmed by Texas patients since the law took effect.

Cain currently lacks legal authority to carry out the actions he warns about in his letters, Josh Blackman, a professor at the South Texas College of Law, said in a phone interview. But if the U.S. Supreme Court overturns the legal precedent known as Roe v. Wade, which gives women a constitutional right to end an early-stage pregnancy, a 1974 Texas statute making it a felony to knowingly pay for an abortion will kick back in.

"That law has not been erased; it's still on the books," even though it has been unenforceable as long as Roe remains binding precedent, Blackman said. "But if the Supreme Court overturns Roe, any county DA can prosecute under it."

"The risk to the bank isn't particularly high right now," Blackman added. But if Roe falls, "then we start going toward a risk of 9 or 10" on a scale of 10, he said.

While the specter of prison time may frighten bank executives, the risk to Citi's muni bond portfolio is scarier. Cain warned he'll introduce legislation in the next session barring Texas municipalities from doing "business with any company that pays the abortion-related expenses of its employees or that provides abortion coverage as an employee benefit."

A spokeswoman for Citigroup didn't immediately respond to a request for comment.

Citi is working on reviving its underwriting business in the state after a law barred local governments from working with companies that discriminate against firearm entities prompted the firm to suspend its municipal-debt underwriting there for several months. It returned to the market in December.

Losing a bank's ability to underwrite Texas bonds "could put an entire entity at risk," Blackman said. "These are very risk-adverse entities, and they may not want to take that risk."

“Citigroup decided to pander the woke ideologues in its C-suite instead of obeying the laws of Texas,” Cain said in a statement released along with copies of his letters. He accused Fraser of a “grotesque abuse of the fiduciary duty that you owe to the many shareholders of your company that oppose abortion” by using company funds to reimburse abortion travel costs.

Leaders of the Lilith Fund for Reproductive Equity, Frontera Fund, and Clinic Access Support Network were among several non-profits that were sent copies of Cain’s cease-and-desist letters.

In the letters, the lawmaker vowed to introduce legislation in the coming session to empower county district attorneys anywhere in Texas to bring criminal charges that “ensure that you and your organization’s employees, volunteers and donors are held accountable for every abortion that you illegally assisted.”

Bloomberg

By Laurel Brubaker Calkins

March 18, 2022

— With assistance by Jennifer Surane

Citi to Cover Worker Abortion Travel as States Limit Access.

- **Bank says new benefit is response to laws in ‘certain states’**
- **Policy starting in 2022 ensures access to ‘adequate resources’**

Citigroup Inc. is starting to cover travel costs for employees seeking abortion after several states including Texas implemented or proposed a near-total ban on abortions.

“In response to changes in reproductive health-care laws in certain states in the U.S., beginning in 2022 we provide travel benefits to facilitate access to adequate resources,” the bank wrote in a filing for its shareholders meeting set for April 26.

The policy will cover expenses, such as airfare and lodging, that employees in places including Texas may incur if they’re forced to travel to receive an abortion, according to a person with knowledge of the matter.

In Texas, where Citigroup has more than 8,500 employees, Governor Greg Abbott signed legislation last year that banned abortion after a fetal heartbeat is detected, which can occur as early as six weeks. Under the law, individuals can sue doctors, clinic workers and others who help a woman end an unwanted pregnancy past the cutoff date. Texas and some other states have also sought to restrict medication-induced abortions.

Citigroup, led by Chief Executive Officer Jane Fraser, already has spent years in the Lone Star State’s crosshairs. The New York-based bank is seeking to revive its underwriting business in Texas after a law barred local governments from working with companies that discriminate against firearm entities prompted the firm to suspend its municipal-debt underwriting there for several months.

The bank follows companies including Match Group Inc. in responding to Texas’s near-total abortion ban. Match CEO Shar Dubey, whose Dallas-based company owns some of the biggest dating apps, said last year she was creating a fund to help cover the costs for employees and dependents who need to seek care outside the state. Competitor Bumble Inc., based in Austin, Texas, created a similar fund. Lyft Inc. and Uber Technologies Inc. pledged to pay legal fees for drivers sued under the Texas law.

Davia Temin, founder of New York-based crisis consultancy Temin and Co. and a Citigroup executive in the 1980s, said other politically progressive banks may follow the financial giant's lead.

"Good for Citi. Under Jane Fraser they really are making great strides in equity, pay and otherwise," Temin said. "Their decision just announced puts their female employees first, over the political wrangling of the day. They listened. Employees don't forget that, they won't forget that and they shouldn't forget that."

Citigroup's proxy filing, posted after market hours on Tuesday, also provided an update on hiring and developments in compensation.

The bank ended the year with more than 223,000 workers around the world. The company enlisted 47,000 new employees in 2021, and filled an additional 27,000 roles through internal hiring, meaning nearly one-third of its staffers are new to the organization or to their jobs, Citigroup said.

In the U.S., the banking giant said it made some progress toward closing the racial pay gap in 2021. Minorities made 4% less than non-minorities did in 2021, an improvement from 6% a year earlier.

Still, on a global basis, median pay for women was 26% less than for men, a disparity similar to a year earlier.

Citigroup remains one of the few major companies to disclose its unadjusted pay gap. Instead, many of its competitors offer an adjusted look that takes into account an employee's role and location. On that basis, women globally are paid on average more than 99% of what men are paid at Citigroup.

"Gender parity is something we demonstrate from the very top of our organization," Citigroup said in the so-called proxy filing. "Eight of our 15 members of the board of directors are women and three are ethnic minorities. Jane Fraser is our first female CEO — and is the first woman to lead a major U.S. financial institution."

Bloomberg

By Jennifer Surane

March 15, 2022

— With assistance by Jeff Green

S&P ESG U.S. Public Finance Report Card: Mountain States

Table of Contents

In this report, S&P Global Ratings analyzes the environmental, social, and governance (ESG) credit factors for select U.S. public finance (USPF) government and not-for-profit enterprise issuers in the Mountain States (including Arizona [AA/Stable], Colorado [AA/Stable], Idaho [AA+/Stable], Montana [AA/Stable], Nevada [AA+/Stable], New Mexico [AA+/Stable], Oklahoma [AA/Stable], and Utah [AAA/Stable]). The list of entities highlighted in this report is not exhaustive but rather broadly illustrative of the region's key ESG risks and opportunities and our view of where issuers across different sectors are positioned relative to those risks and opportunities. Beginning April 2020, S&P Global Ratings incorporated a summary paragraph in all issuer-level credit reports describing their comparative ESG risks and opportunities. Select ESG summary paragraphs from issuers within these states are reproduced in the Appendix to this report.

Continue reading.

17 Mar, 2022

Puerto Rico Is Out of Bankruptcy After a $22 Billion Debt Exchange.

- **Bond exchange reduces $22 billion of bonds to about $7 billion**
- **Bondholders to be paid for first time in almost six years**

Puerto Rico's ended its nearly five-year bankruptcy as the commonwealth restructured $22 billion of debt, a crucial step that aims to help the island's economy and repair its finances.

The U.S. territory cut the debt down to about $7 billion Tuesday through a bond exchange where investors hand in their securities for new general obligations. The transaction effectively ends Puerto Rico's bankruptcy and resolves a major chunk of the $74 billion of debt that the island and its agencies had racked up when the bankruptcy began in May 2017.

Continue reading.

Bloomberg Markets

By Michelle Kaske and Jim Wyss

March 14, 2022

California Has So Much Cash, Wall Street Wants an Early Payback.

- **Underwriters suggest state use surplus to pay off debt early**
- **Paying off debt early may help circumvent constitutional limit**

California is so awash with money that Wall Street is advising it to buy out some of its debt investors.

Morgan Stanley and Loop Capital Markets suggested to Treasurer Fiona Ma that her office consider paying off some bonds early, public records obtained by Bloomberg News show. The pitches underscore the financial strength of California given that the state's proposed $213 billion budget is bolstered by a $45.7 billion surplus. The state's progressive tax system rakes in more revenue when the income of its highest earners rises.

Continue reading.

Bloomberg Markets

By Romy Varghese

March 18, 2022

S&P Charter School Brief: California

View the Brief.

10 Mar, 2022

Fourth District Rejects CEQA And Municipal Code Challenges To City Of Santa Cruz's Project Approvals And EIR For Small Multifamily Housing Project.

In an opinion filed on December 16, 2021, and belatedly ordered published on January 13, 2022, the Fourth District Court of Appeal rejected a CEQA challenge to a small multifamily project in the *City of Santa Cruz. Ocean Street Extension Neighborhood Assn. v. City of Santa Cruz* (2021) 73 Cal.App.5th 985 ("OSENA"). The case contains valuable guidance regarding mitigation for biological resources impacts, lays out some common sense principles that may help condense the EIR preparation process, and also provides useful guidance to developers and agencies dealing with water supply issues during the current drought.

The Project, City's Review And Approval Process, And The Litigation

The project at issue is a multifamily development on a vacant parcel of land in the City of Santa Cruz, a portion of which has slopes in the 15+ and 30+ percent categories. In 2010, the real parties applied for a design permit, planned development permit (PDP), tentative map, general plan amendment, and rezoning to build 40 residential units on the parcel. The PDP entailed two variations from the City's usual regulations for the site to allow tandem parking and development within 10 feet of the 30+ percent slope.

As part of the review process, the City prepared an initial study/mitigated negative declaration to address CEQA compliance. However, the project stalled while issues with a nearby crematorium were addressed. In 2016, the project was renewed and the City prepared a new initial study and then a draft environmental impact report (as well as recirculated draft EIR) before preparing the final EIR. The FEIR included three project alternatives, one of which reduced the number of units to 32. The City Council approved that alternative, approved the PDP and design permit, and certified the FEIR; it subsequently approved the general plan amendment and rezoning.

Petitioner OSENA sued the City under CEQA and the City's municipal code. With respect to the CEQA claim, it argued, inter alia, that (1) it was improper for the City to rely on analysis and mitigation contained in the initial study rather than the body of the EIR itself, (2) that certain of the mitigation measures were inadequate, (3) that the EIR's stated project objectives were improper, and (4) that the EIR did not fully analyze cumulative impacts. As for the claim under the City's municipal code, OSENA argued that the project had to comply with the slope variance standards, which could not be properly addressed via the PDP, and that the project improperly created new lots requiring the residences to be sited within twenty feet of a 30+ percent slope.

The trial court rejected all of OSENA's CEQA arguments but granted its petition as to the PDP and slope variance issue. Both OSENA and the City appealed. The Court of Appeal affirmed the trial court's ruling rejecting the CEQA claim, but reversed on the municipal code claim, thus giving the City and real parties a complete win and upholding the project approval in all respects.

The Court Of Appeal's Opinion

EIR's Reliance On An Initial Study, Sufficiency Of Impacts Analysis, Informational Discussion, And Mitigation

The first substantive issue the court addressed was the location of the EIR's discussion of impacts to biological resources. The EIR proper did not include this discussion; rather, it had been undertaken in the initial study, which concluded there would be no significant impacts with the imposition of certain mitigation measures. The DEIR and FEIR incorporated the initial study by reference and included it as an appendix.

OSENA argued this violated CEQA Guidelines § 15063(c)(2). The City countered that Guidelines § 15128 permits the inclusion of the information in the initial study if the possibly significant effects could be reduced to less than significant with mitigation. Section 15063(c)(2) states that the purpose of an initial study allows for the mitigation of potentially significant impacts "enabling the project to qualify for a negative declaration." However, section 15128 states: "An EIR shall contain a statement briefly indicating the reasons that various possible significant effects of a project were determined not to be significant and were therefore not discussed in detail in the EIR. Such a statement may be contained in an attached copy of an Initial Study." Moreover, as the Court noted, section 15143 states: "Effects dismissed in an Initial Study as clearly insignificant and unlikely to occur need not be discussed further in the EIR unless the Lead Agency subsequently receives information inconsistent with the finding in the Initial Study. A copy of the Initial Study may be attached to the EIR to provide the basis for limiting the impacts discussed." Looking at the CEQA checklist in Appendix G to the Guidelines, the Court noted that if all impacts are "less than significant with mitigation," no EIR is required, and thus, "that an environmental factor that is 'less than significant with mitigation incorporated' is not considered 'potentially significant' for purposes of triggering the EIR."

The Court therefore concluded that "nothing prohibits the discussion of impacts that are less than significant with mitigation in an initial study rather than in an EIR so long as the EIR complies with its purpose as an informational document." The Court then went on to review the discussion of biological impacts in the EIR via the initial study (which was included with and incorporated into the FEIR) and concluded that it was legally adequate. The Court specifically rejected OSENA's argument that the EIR's analysis was inadequate because it should have, but did not, address "the types of birds that could be affected, the likelihood that they could be found at the site, and the likelihood and magnitude of the project's impact on them." The Court held that while such "details may have enhanced the discussion, their absence does not undermine the adequacy of the EIR as an informational document because the initial study makes clear that whatever the birds affected, their nests will not be removed when in use; thus, any impact to bird mortality has been eliminated." The Court further held the related mitigation measures were legally adequate, and that they could properly be included in the initial study as well.

OSENA's next claim was that the EIR was inadequate because the mitigation measures it included were vague and consisted of impermissibly deferred mitigation. While OSENA had failed to raise this in the trial court, the Court of Appeal nonetheless addressed it on the merits, rejecting it and concluding that the City's determination was supported by substantial evidence. The mitigation measures at issue concerned impacts to trees and bird species, including limiting the time of year trees can be removed, establishing buffer zones, preconstruction surveys, fencing, root protection, and other measures. The court found these to be sufficiently specific, detailed, and mandatory so as to be enforceable and lawful mitigation measures.

EIR's Statement of Project Objectives

OSENA fared no better with its argument that the project objectives set forth in the EIR were "too narrow" because they focused on a 40-unit count and were "vague and misleading" because they used descriptors such as "work force housing opportunities, "affordable-by-design," and "moderate cost housing opportunities" which simply described the project to be built.

The Court analyzed this claim in the framework of project alternatives, as the range of alternatives is necessarily constrained by the project's objectives. OSENA argued that the project was not truly affordable and only offered limited affordability options. The Court rejected these arguments because the project did offer affordable units under the City's inclusionary housing ordinance and increased the housing stock available citywide. Likewise, OSENA claimed that the project did not increase housing for people with disabilities because it did not provide services to the disabled. Again, the Court rejected this because the project did provide ADA-accessible units. OSENA also claimed that the project goal of providing development fees is illusory because all development has to pay such fees. But because all of the project alternatives would attain this objective, its inclusion or exclusion as an objective had no impact on the outcome, and the Court thus rejected OSENA's challenge. Finally, OSENA claimed that the objectives relating to affordable housing conflicted with the objective relating to providing free market housing. The Court noted that these goals are not in conflict and that the project provides both types of housing.

The Court concluded this part of its analysis by stating that the EIR included sufficient information justifying its objectives and alternatives, and that the City had the discretion to choose among the alternatives where the discussion was sufficient. Thus, there was no basis to invalidate the EIR on that ground.

EIR's Cumulative Water Supply Impacts Analysis

One of the more interesting and salient aspects of the decision is its discussion of cumulative impacts relating to water supply. The project would add less than .01% (one hundredth of one percent) to the City's water demand. The City already faced a water deficit during prolonged droughts, which the project could be considered to exacerbate. However, the City had plans to augment water supply through conservation, recharging aquifers, and treated recycled water. Moreover, the project had to mitigate its water use via water-conserving fixtures and landscaping, reduced usage during drought, and financial contributions to pay for system improvements and conservation. OSENA argued that under Kings County Farm Bureau v. City of Handford (1990) 221 Cal.App.3d 692 and Los Angeles Unified School Dist. v. City of Los Angeles (1997) 58 Cal.App.4th 1019 the City's cumulative impact conclusion was an improper "ratio" analysis that failed to account for actual cumulative and combined impacts. The Court disagreed, noting that the project's total water usage was evaluated in the EIR in context of water demand citywide, that the EIR analyzed its significance in light of current supply conditions and future demands, and that it incorporated mitigation measures. It determined the impact was less than significant "because the project's consumers will not cause additional curtailment requirements and will be subject to city-wide conservation requirements"; further "[t]he project's contribution is not cumulatively considerable because its contribution is already accounted for in the UWMP [Urban Water Management Plan] estimates." Thus, the Court concluded the cumulative impacts conclusion was supported by substantial evidence.

The final CEQA issue concerned cumulative impacts related to traffic. Because the Natural

Resources Agency adopted revised criteria for evaluating traffic impacts that substituted vehicle miles traveled (VMT) for the old level of service (LOS) metric, and OSENA only challenged the EIR's LOS evaluation (even though the EIR ALSO included a VMT analysis), the claim was not cognizable.

Municipal Code Claims

The last portion of the decision deals with OSENA's claim under the City's municipal code. In essence, OSENA argued that the City could not grant the developer a modification under the restrictions on development adjacent to a slope under the auspices of the PDP. In essence this was a question of statutory interpretation, as the PDP ordinance allowed a "variation" from "[s]lope modifications pursuant to procedures set forth in Chapter 24.08, Part 9 (Slope Regulations Modifications)." The question was whether the PDP approval process itself could allow for the variation, or if it also required action "pursuant to" the slope regulations. The Court concluded that the City's interpretation of its own Code provision was entitled to deference, and consistent with the provision's purposes and language; thus, it held the City's interpretation was correct and a variation could be approved via PDP without also separately processing a slope modification. Accordingly, the Court of Appeal reversed on this point and directed the entry of judgment in favor of the City and developer.

OSENA's last gasp was to argue that the project improperly created new lots requiring residences to be sited within 20 feet of a 30+ percent slope, but the Court rejected this contention as inconsistent with the terms of the municipal code. Because the project created a condominium plan on a single existing lot, it did not run afoul of this provision.

Conclusion And Implications

The *OSENA* case embodies some useful principles for CEQA practitioners. By allowing required impacts analyses and mitigation measures to be included in an initial study incorporated by reference in and appended to the EIR, it potentially streamlines the preparation of EIRs and avoids duplicative or redundant work. (Any jurisdiction relying on this principle should, of course, make sure the analysis in the initial study is sufficiently robust so as to withstand the ordinary substantial evidence level of scrutiny.) The case also may be helpful for projects dealing with water supplies in drought impacted areas of the state – which at this point is more or less California as a whole. Because any new project will entail some water demand, cumulative impacts will always be a potential achilles heel in the face of ongoing shortages; however, this case helpfully holds that where a project's incremental contribution to demand will not require additional curtailment measures than would otherwise occur during such shortages, and is accounted for in the UWMP, its cumulative effects are properly found less than significant.

Miller Starr Regalia – Matthew Henderson and Arthur F. Coon

March 9 2022

Philadelphia Inches Closer to Creating a Public Bank.

Philadelphia is one step closer to creating a public bank, a taxpayer-owned financial institution owned by a government body rather than private investors.

Why it matters: Black and brown businesses have more difficulty obtaining credit compared to their white counterparts. A public bank is supposed to be a way to provide loans and boost access to credit for business owners of color.

- Black Philadelphians make up 44% of the city's population but only about 6% of businesses with employees. Latinos make up about 15% of the city's population but only make up 4% of businesses with employees.

What they're saying: "If we're able to take those businesses and give them more access to credit to help their cash flow, they can hire more people … and by doing that, hopefully we can reduce the poverty in our city," Councilmember Derek Green, who spearheaded this effort, said.

Between the lines: Philly can't make its own bank immediately because Pennsylvania doesn't have legislation to allow cities to do that.

- The bill that passed last week is a workaround. It created the Philadelphia Public Finance Authority, which will issue letters of credit to guarantee loans to businesses borrowing from private banks.
- The city and PPFA will then work together to create a third entity to directly receive and manage city money. Green hopes this is a way to create the future public bank

How the PPFA would work: The mayor will appoint a nine-member board of directors to oversee the bank, and they will serve six-year terms.

- Those directors will then create a separate policy board that conducts the day-to-day operations and is responsible for creating the lending and investment policies and executing the approval process for letters of credit. The policy board will be made up of members with finance, business and community engagement experience.

Zoom out: The Bank of North Dakota and The Territorial Bank of American Samoa are the only two public banks in the U.S.

What's next: The city still needs to find resources for this to work, and that won't be finalized until the budget passes later this year.

- The mayor then needs to appoint the board of directors.
- Green told Axios he hopes the PPFA will be operational by the end of the year.

Axios

by Taylor Allen

Mar 7, 2022

California Preps $2.2 Billion Bond Sale, Biggest in Two Years.

- **State's credit is viewed 'strongest it has been in decades'**
- **Size and market tone may lead to higher yields for buyers**

The last time California sold such a large amount of general-obligation bonds, wildfires were scorching thousands of acres and its budget was balanced in part by deferring payments and plumbing reserves.

But now, roughly two years later, the Golden State is selling $2.2 billion of debt under much more stable circumstances. Governor Gavin Newsom is projecting a $45.7 billion operating surplus for the next fiscal year. And while California remains mired in drought, revenue from its highest earners has boosted the state's coffers as they continue to defy expectations in the pandemic's uneven recovery.

"They've really been a nice case study of all the various aspects that go into fiscal discipline and maintaining that over multiple years," said Ty Schoback, a senior municipal research analyst for Columbia Threadneedle Investments, ahead of the Wednesday offering. "Their tax collections have really been off the chart. It provided the governor with a bucket of funds that it would be difficult to screw up even if they tried."

In fact, the state could see a credit-rating increase, CreditSights municipal analyst John Ceffalio said. Moody's Investors Service and Fitch Ratings both rate the state's general-obligation debt at the third-highest rank, Aa2 and AA respectively with stable outlooks, while S&P Global Ratings' AA- is a step lower with a positive outlook.

California "is the strongest it has been in decades," said Ceffalio, saying it likely deserves the second-highest rank of AA+. "The state has socked away a lot of money in its rainy-day funds. It's reduced debts over the last 10 years."

Propping up Wall Street's confidence in California — the world's fifth-largest economy if it were a nation — are the state's lucrative business sectors including technology, as well as a progressive tax system that has led it to notch surpluses. The state's wealthiest residents have reaped the benefits of rising stock prices and stable employment, even as many lower-income workers lost their jobs in the pandemic.

As the coronavirus outbreak roiled U.S. states in early 2020, California girded for a $54 billion two-year deficit, deferring payments to schools, borrowing from internal funds and cutting employee compensation. But by January 2021, Newsom herald a sharp turnaround in presenting a budget with a $15 billion surplus that later expanded to a record $75.7 billion, on top of $27 billion in federal stimulus funds.

The next fiscal year's budget again posted a sizable surplus, with $20.6 billion available for discretionary purposes. Yet revenue collections show cash is rolling in even more than expected — 15% — year to date. That raises the possibility that the windfall may grow by May, when Newsom, a first-term Democrat running for re-election, updates his spending plan.

Credit profile aside, the state may still have to offer more in compensation for next week's deal, given its large size and the market, which is seeing some volatility and uncertainty, said Debra Crovicz, a portfolio manager at Chilton Investment Company LLC. California 10-year bonds are yielding 1.79%, or 16 basis points over benchmark munis, data compiled by Bloomberg show.

Traders are bracing for interest-rate hikes this month, investors have pulled money from municipal-bond mutual funds for six out of the past seven weeks, and the market's posting a 3.2% loss year to date, according to Bloomberg index data.

"There's a lot of bonds," she said. "It has to be priced cheap relative to where spreads were in the past and relative to Treasuries in order to get that deal done."

Bloomberg Markets

By Romy Varghese

March 4, 2022

[New Jersey’s Credit Rating Upgrade (Bloomberg Radio)]

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. He discusses New Jersey’s credit rating upgrade and Arizona’s controversial gun law. Hosted by Paul Sweeney.

[Listen to audio.]

Bloomberg Radio

Mar 04, 2022

[Wall Street Faces Threat of Ouster From Arizona’s Muni Market.]

- **Arizona bill seeks to block banks from public-finance work**
- **Measure has passed the state’s House, has moved on to Senate**

A GOP-backed bill advancing through the Arizona legislature could restrict Wall Street’s work with local governments in the state, hurting the public-finance business at banks including JPMorgan Chase & Co.

House Bill 2473 passed the Arizona House of Representatives last week and is now under consideration in the Senate. It’s similar to a GOP law in Texas that took effect in September and upended a crucial market for municipal finance. Bank of America Corp., Goldman Sachs Group Inc. and JPMorgan have halted underwriting for Texas and its municipalities, and Citigroup Inc. resumed handling deals there after a pause of more than two months.

Banks are taking notice of the Arizona bill, as the GOP controls the legislature and the governor is Republican as well. The state is among at least eight, on top of Texas, where GOP lawmakers have introduced bills backed by the National Shooting Sports Foundation, a group that aims to punish Wall Street for what it sees as restrictive gun policies. Of that batch of states, Arizona’s measure is the only one to win approval in the legislature chamber where it was introduced.

“If these banks hit the pause button like they did in Texas, to make sure they are not out of compliance — that may disturb the market,” said Paul Hickman, president of the Arizona Bankers Association. His group opposes the bill, saying it restricts the free market by dictating to private companies whom they can transact with.

Banks have been adopting gun policies in the wake of mass shootings in the U.S. JPMorgan Chief Executive Officer Jamie Dimon, for example, said last year that the bank won’t finance companies that make military-style weapons for consumers. A JPMorgan spokesperson declined to comment.

Democrats in Arizona have voiced opposition to it, and a spokesperson for Tempe said the city and other municipalities are working to amend the legislation.

“Regardless of where you stand on firearms, from a fiscal perspective this is bad for the government," said Martín Quezada, a Democratic state senator. "It will result in less competition, higher costs, and risk the safety of our taxpayer money."

Muni Impact

The bill was introduced in January by Frank Carroll, a Republican state lawmaker, and it has about two-dozen Republican sponsors. Carroll didn't respond to multiple requests for comment. The measure would apply to government contracts of $100,000 or more, hitting services like banking and debt underwriting.

Lawrence Keane, senior vice president for government affairs at the National Shooting Sports Foundation, said the group is optimistic about the bill's prospects.

"We are confident that we can get the bill to the governors desk," he said.

Granted, the Arizona muni market is much smaller than Texas's, which at almost $50 billion last year was second only to California. Arizona issuers sold about $7.5 billion of munis in 2021, data compiled by Bloomberg show.

JPMorgan was the third-biggest muni underwriter there last year, handling nearly $1 billion, out of the $36 billion of long-term munis it underwrote nationwide. Bank of America and Goldman Sachs are also in the top 10 there. Other banks that dominate muni underwriting in Arizona, like Stifel Financial Corp. and Royal Bank of Canada, have been able to comply with the gun law in Texas and continued to underwrite deals there after it took effect.

A spokesperson for Goldman Sachs declined to comment. A spokesperson for Bank of America didn't have an immediate comment.

Steven Killian, director of government relations for the Arizona Bankers Association, said the bill could hinder growth in the booming Phoenix area, which needs infrastructure funded by municipal bonds to support a surging population.

"Everything here is new, new roads, new infrastructure, new everything," he said. "Cities depend on these bond issuances to keep up with the growth."

County 'Ramifications'

The reach of the bill extends beyond bond issuance to a broad array of government banking needs.

It would have "significant ramifications" for Arizona's Coconino County, said Sarah Benatar, the municipality's treasurer. The county of 145,000, which completes more than $1 billion of financial transactions a year, uses JPMorgan for everything from deposits to worker payrolls.

Benatar said that under state code, there are few other banks big enough to legally serve the county given the size of its funds and collateralization requirements for banks.

"When you start passing legislation like this, you're impacting our ability to ensure that safety of public monies," she said.

The county recently received bids from two banks for a bank-servicing contract beginning later this year, one of them being JPMorgan, she said.

If fewer bidders participate, it could raise costs for the county and taxpayers, she said. And if no bank were able to participate, the government would likely have to hire more workers to handle banking entirely in-house, she said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

March 3, 2022

Illinois Spreads Widen as Risk-Shy Investors Exploit Liquidity.

- **10-year spread hovers around level last seen 11 months ago**
- **Illinois index had worst loss among largest states in February**

Illinois, the worst-rated U.S. state, is seeing its penalty in the bond market jump to the highest in nearly a year in the current risk-off environment.

The debt penalty for the state's bonds over benchmark securities is at the highest since April. The rising spreads came as investors pulled about $8 billion from muni funds this year.

While Illinois's credit outlook has improved, investors increasingly are showing a desire to raise cash and avoid risk in the $4 trillion municipal bond market, traditionally a credit haven, said Dan Solender, director of tax-free fixed income for Lord, Abbett & Co., which holds Illinois securities as part of $35 billion in muni debt.

"Illinois is an example of a large issuer with a lot of liquidity on the lower side of investment grade," Solender said in an interview. "It kind of moves down faster at the beginning of a down market because it gets traded more actively."

Illinois is underperforming the broader market. In February, the Illinois index fell 0.64%, the biggest decline among the largest state issuers in the Bloomberg Municipal Bond Index, which is down 3% this year. The Bloomberg Municipal Baa Index Total Return Index has fallen 3.5%.

Moody's Investors Service upgraded the state to Baa2 from Baa3 in June, bringing it to two steps above junk. S&P Global Ratings lifted Illinois to BBB from BBB- in July, while Fitch Ratings raised its outlook to positive from negative, but kept it at BBB- given challenges including underfunded pensions.

The state's 10-year bond spread on Feb. 25 reached about 106 basis points above AAA muni benchmark securities and is still hovering above 100 basis points. Those levels are the widest since April 2021, before Illinois's first rating upgrade in two decades.

While the penalty is far less than the 4.4% in May 2020 during the early days of the pandemic, the increase is still a near-doubling from the low of 53 basis points in December. The difference in the penalty that Illinois pays over New Jersey, the second-lowest rated state, tripled to about 63 basis points this week from Dec. 1, when Illinois last sold bonds. New Jersey on Wednesday got its first ratings upgrade since 2005.

Carol Knowles, a spokesperson for the Governor's Office of Management and Budget, said in a statement that the state doesn't comment on day-to-day market fluctuations.

"When the muni market is hot, spreads compress, especially with the recent upgrade and positive outlook," said Max Christiana, a portfolio manager for Belle Haven Investments, which holds $16 billion in muni assets including Illinois. "And then in a weak market, it tends to widen out quicker than other muni securities."

The wider spread is due more to market technicals than the trajectory of Illinois as a credit, he said.

A rebounding economy has led the state's revenue to top projections and federal stimulus money has eased strains caused by the Covid-19 pandemic. The state also has taken positive budgetary steps and its spreads still are tighter than in the past, said Molly Shellhorn, a senior research analyst for Nuveen, which holds about $1.4 billion in Illinois general-obligation debt as part of $230 billion in muni assets as of Dec. 31.

Bloomberg Markets

By Shruti Singh

March 3, 2022

Oppenheimer Launches Municipal Restructuring Capability.

New Group Offers Unparalleled Full-Service Solutions for Municipal Bond Issuers and Institutional Investors to Stabilize, Preserve and Recover Value

NEW YORK, March 2, 2022 /PRNewswire/ — Oppenheimer & Co. Inc. ("Oppenheimer") – a leading investment bank, wealth manager, and a subsidiary of Oppenheimer Holdings (NYSE: OPY) – today announced the launch of its Municipal Restructuring Group. The newly formed function is led by both Eric Scroggins, Co-Head of Debt Advisory and Restructuring, and Bill Reisner, Head of Public Finance Investment Banking.

Oppenheimer noted that the offerings of this group are being rolled out at a time when high-yield municipal bond defaults are rising with more transactions showing impairment. The new group is structured to deliver a comprehensive full-service capability to borrowers and lenders of distressed debt. Our credit-focused senior Public Finance bankers will complement core restructuring specialists to advise governmental, housing and healthcare issuers on addressing challenges in their capital structure.

Mr. Scroggins said, "Without question, the economic effects of the pandemic have had an outsized impact on municipal issuers, from hospitals and senior assisted living communities to public retail districts and parking structures. The pandemic has fundamentally altered many of the financial assumptions tied to dedicated revenue bonds. Both issuers and institutional investors are seeking hands-on support and deep expertise across each stage of the municipal bond life cycle to adjust to this new normal."

Oppenheimer's top-tier investment banking solutions in municipal finance include the full spectrum of capabilities expected by institutional investors and issuers, encompassing sales, trading, underwriting of newly issued securities, private placement of bank debt, and restructuring of existing debt. The Municipal Restructuring Group combines the firm's decades of experience in helping entities stabilize and preserve value during periods of uncertainty, with capital-raising experience and resources required for essential projects in the municipal marketplace.

Oppenheimer will continue to deliver best-in-class solutions to state and local governments, public agencies, private developers, and non-profit borrowers. The new Municipal Restructuring Group will leverage key resources in underwriting that span all tax treatments and credit types. These expanded capabilities are expected to reinforce Oppenheimer's large and growing public finance activities, which have earned the firm a top-3 position for municipal notes and recognition as a top-10 underwriter for all municipal issuance types in 2021.

Mr. Reisner said, "Now more than ever, lenders and borrowers need customized guidance and calibrated solutions to navigate restructuring situations in municipal markets. With municipal defaults likely to continue, Oppenheimer stands ready to leverage our experience as innovators in public finance to the benefit of borrowers and investors."

Oppenheimer's Municipal Restructuring Group builds on recent momentum, including the expansion of its Debt Advisory and Restructuring Group and robust growth in our Public Finance practice, to specifically address the needs of clients, using its capital market expertise across the financing spectrum to apply creative strategies to leveraged corporate issuers, financial sponsors, and credit investors.

Notorious Beltway Bottleneck Gets Fix in Muni-Financed Project.

- **Virginia agency selling $1.1 billion of debt this week**
- **Plan extends high-occupancy toll lanes by 2 miles on I-495**

A Virginia public-finance agency plans to borrow about $1.1 billion in the municipal bond market to extend high-occupancy toll lanes to ease gridlock in one of the capital area's most notorious Beltway bottlenecks.

The Virginia Small Business Financing Authority is scheduled to issue the debt Thursday as part of a plan to extend the lanes on I-495 by about 2 miles (3.2 kilometers) near the Maryland border northwest of Washington, roadshow documents show.

The bond issue comes as traffic is surging back toward pre-pandemic levels, and for some portfolio managers it's more than just an investment opportunity.

"I experience this, not daily, luckily, but all the time," said Carlton Davis, a vice president at Chevy Chase Trust in Bethesda, Maryland, who lives in the area and is considering buying a taxable portion of the sale. "It's absolutely terrible, it can be 2 p.m. on a Saturday and it's an absolute parking lot."

U.S. toll roads saw traffic plummet early in the pandemic, but have since emerged as one of the more resilient transportation sectors. The routes may benefit now from lasting societal changes as commuters return, such as increasing leisure travel and an aversion to carpooling.

Average U.S. toll-road traffic for the third quarter of 2021 was 95% of 2019 levels, according to Fitch Ratings.

"The good toll roads were able to weather the storm pretty easily," Chevy Chase Trust's Davis said.

Davis said the relative stability of commercial travel helped keep systems like the Pennsylvania and New Jersey Turnpikes humming. He said he likes the sector because of relatively low maintenance costs compared to public transit, and the importance of toll roads in places with few alternatives.

"A lot of big toll systems in the South saw a decline in revenue and ridership, but they're very essential to the heartbeat of that economic area," Davis said.

For high-occupancy lanes on I-495, toll traffic in April through September 2021 was 73% above 2020 levels, but still 32% below 2019 levels for the same period, according to bond documents.

March Launch

Work on the Virginia project is forecast to begin next month with completion expected in May 2026, bond documents say. The project is being facilitated through an agreement between the Virginia Department of Transportation and a private firm owned in part by the Transurban Group, an Australian toll-road manager, developer and operator.

The debt will be sold in two series: about $304 million of senior lien revenue and refunding bonds, and around $841 million of subordinate lien revenue refunding notes that are federally taxable.

The bonds are rated Baa1 by Moody's Investors Service — three levels above junk — with a stable outlook. The firm cited "well mitigated" construction risk and a favorable view of Transurban, as well as risk for the project as traffic on the tollway recovers from the pandemic.

The recovery across transportation sectors has been uneven. Barclays Plc strategists are advising clients to avoid bonds issued by public-transit agencies amid weak ridership and lingering pandemic uncertainty. But they said they like some toll-road debt.

"High-quality toll roads have stabilized, although with little upside for spread opportunity," they wrote in a report last week. "We like credit quality of these credits, as well as their recovery prospects, although near-term taxable muni spreads might be following corporate spreads wider."

Bloomberg Markets

By Nic Querolo

February 23, 2022

The Misbegotten Bidding War Over Public Subsidies For The Washington Commanders Football Team

Dan Snyder, owner of the newly-renamed Washington Commanders football team, reportedly wants to build a $1 billion stadium that would anchor $2 billion in commercial development including hotels, offices, and retail. And politicians are falling all over themselves to provide public dollars to help him.

Like the team's long-suffering fans, those local pols have fallen victim to the triumph of hope over experience. They believe a new football stadium is a fast track to massive economic development. Yet, extensive research suggests this outcome is about as rare as a Super Bowl victory for Washington's football team. Here is one example. Here is another. And another.

Bipartisan subsidies

No matter. In Virginia, lawmakers are debating competing bipartisan proposals to authorize up to $1 billion in tax-exempt bonds to fund Snyder's project. In one version, the state would help the Commanders repay the bonds by diverting to the team 2 percentage points of any sales taxes paid on purchases made at the project as well as any income tax from the salaries of players and executives. Plus, the team could retain any revenue from the naming rights it sells on the stadium. A competing bill is somewhat less generous: It would allow the team to keep only half the naming rights revenue.

Continue reading.

Forbes

by Howard Gleckman

Feb 23, 2022

Kansas GOP Takes Up Gun Bill Targeting Banks' Muni Business.

- **Bill sponsor says seeking to address 'corporate gun control'**
- **Proposed law would affect government entities in Kansas**

A Kansas bill would block governmental entities in the state from working with companies that have restrictive gun policies, adding to a wave of GOP legislation that's targeted Wall Street's public-finance business.

A group of Republican Kansas state senators put forward legislation last week that would bar companies from government contracts worth at least $100,000 unless they can certify in writing that they don't "discriminate" against the firearms and ammunition industries.

Kellie Warren, one of the senators, introduced the proposal, and it was referred to the Senate's Committee on Federal and State Affairs. She is the chair of the chamber's judiciary committee and a candidate for state attorney general. Other co-sponsors include Senate Majority Leader Larry Alley and Renee Erickson, Senate assistant majority leader. While the legislature is Republican-controlled, Governor Laura Kelly is a Democrat.

If enacted, the bill risks curtailing banks' municipal-bond underwriting in the state. Borrowers there sold about $3.8 billion of munis last year, ranking it roughly 30th among U.S. states, data compiled by Bloomberg show.

It's the latest effort by local Republican officials nationwide to punish Wall Street firms for their gun policies. GOP lawmakers in Arizona, Kentucky, Missouri, Ohio, South Dakota and West Virginia have also introduced legislation, conceived by an influential gun group, the National Shooting Sports Foundation, that aims to punish Wall Street for what it deems to be restrictive gun policies.

Warren said in an emailed statement Tuesday that she and other GOP leaders are seeking to address "corporate gun control"

"The leftist mob has a radical agenda designed to circumvent our constitutional rights in order to re-engineer society by attacking the gun trade," she said in the statement. "Knowing their policies are deeply unpopular in Kansas, they seek to enforce their agenda through woke corporations seeking to cancel our right to bear arms and bully those involved in the commerce of firearms and ammunition.”

The legislation impacts all governmental entities in the state, including state agencies and political subdivisions, which Kansas state code defines as any government body that can levy taxes.

The effort builds on a law passed in Texas last year that has successfully shut out Wall Street behemoths like JPMorgan Chase & Co. and Bank of America Corp. from underwriting most municipal in the state, which is a key public-finance market.

Bloomberg Markets

By Amanda Albright and Danielle Moran

February 15, 2022

New Jersey Turnpike’s Swaps Mean a Windfall, Sort of.

- **Swaps pay more, but underlying floating-rate debt costs more**
- **Agency has almost $800 million of swaps, had been $1.8 billion**

Motoring through some old bond-offering documents the other night, I was struck by something unexpected and shocking and I couldn’t look away: Interest-rate swaps!

And not one or two, but 16 of them totaling $795 million, all legacies from bond deals from 2015 to 2020. There they were, laid out for all to see starting on page 16 of the prospectus for a bond offering from the New Jersey Turnpike Authority in January 2021.

It occurred to me that they might be proving a boon, with London interbank offered rates, a key component of the swaps, having generally drifted higher in recent weeks ahead of next month’s widely expected Federal Reserve rate hike.

Swaps swept through the municipal market in the 1990s. They went from being something that sophisticated issuers used to hedge floating-rate debt to something that no issuer of any size could possibly do without.

They blew up in the Jefferson County, Alabama, bankruptcy in 2011, and rueful local governments and school districts spent years getting out of the contracts with sometimes hefty termination payments, totaling billions of dollars nationwide, after the financial crisis. They were intended to protect against the risk of rising rates, but rates fell, leaving municipalities paying more, not less.

But they never really went away. They remained a legitimate financing tool for big bond issuers like the New Jersey Turnpike, which in January was upgraded by Moody’s Investors Service to A1. The authority has $10 billion in fixed-rate and $800 million of variable-rate bonds outstanding, so the swaps amount to less than 10% of that.

The authority “used to have something like $1.8 billion in swap notional amount back in 2004,” or 40% of total debt, wrote John Medina, a senior credit officer at Moody’s, in an email about the swaps portfolio.

No Windfall

As it turns out, the swaps aren’t turning into a windfall for the authority even as short-end rates are rising, but they do appear to be working as intended.

The swaps essentially represent a side bet on a related series of bonds. An issuer offers to pay a bank a fixed rate in exchange for a floating one. That floating rate, as the authority says in its offering docs, “is meant to closely approximate the method of determining the floating interest rate payable” on the underlying variable-rate bonds. But if short-term rates rise, so will the floating rate the counterparty pays.

So let’s assume an issuer pays a fixed rate, and accepts a percentage of an index as its floating rate, say 67% of Libor, a level used in some of the turnpike swaps. As the index climbs, the issuer gets 67% of a larger and larger number. Hence my question about a windfall.

And the answer was: Yes. And no.

“The mark-to-market value as of a couple of weeks ago was only negative $46 million” on the agency’s floating- to fixed-rate swaps, on what is now a notional amount of about $774 million, Medina wrote.

In each swap, NJTA is receiving a percentage of Libor and paying a fixed percentage, he explained. As that underlying index for the receiving side rises, NJTA will get more funds on a monthly cash-flow basis for each swap. However, the interest costs are also rising on the underlying floating-rate obligations.

“So NJTA is paying more on a monthly cash-flow basis for each of those floating-rate notes,” he said.

Which means that the increased amount the Turnpike gets on the swaps is canceled out by the larger sum it’s paying out. And this is exactly how swaps should work in a large, sophisticated issuer’s stack of debt.

‘Prudent Approach’

The swaps portfolio has shrunk along with the agency’s use of variable-rate debt, Medina said.

“This has allowed NJTA to take advantage of the declining and low interest-rate environment for the last decade or so while keeping a portion of its large debt portfolio at the shorter end of the curve,” he said. “A prudent approach to debt management over time.”

The Turnpike didn’t respond to a request for comment on the swaps portfolio.

There’s one other thing that struck me about this financing. Instead of issuing typical variable-rate bonds, the authority chose direct-purchase transactions, or private placements with single investors, for its floating-rate exposure, bypassing the whole underwriting process and market risks of variable-rate demand obligations. So maybe that’s what’s hot in Muniland now.

Bloomberg Markets

By Joseph Mysak Jr

February 15, 2022

— *With assistance by Danielle Moran*

(Joe Mysak is a municipal market columnist who writes for Bloomberg. His opinions do not necessarily reflect those of Bloomberg LP and its owner, and his observations are not intended as investment advice.)

S&P: Some Missouri School Districts Could Face Long-Term Financial Pressure From Mask Mandate Lawsuits, Others Could Face Higher Capital Costs

Key Takeaways

- The Missouri attorney general is suing 45 Missouri school districts for enforcing mask mandates.
- We do not anticipate any major pressure on the districts' credit quality in the short-term. However, a significant judgement against the districts could pressure finances or operations and consequently credit quality.
- We will consider any rating actions on a case-by-case basis.
- The treasurer's office has disallowed school districts who enforce a mask mandate from participating in the Missouri enhancement program.

Continue reading.

11 Feb, 2022

9th Circuit Rules Publicly Owned Utilities Not Exempt From Federal Antitrust Challenges Under Filed-Rate Doctrine.

On January 31, 2022, the 9th Circuit Court of Appeals reversed and remanded a district court's dismissal of an antitrust challenge by a class of solar rooftop customers against their municipal utility, the Salt River Project Agricultural Improvement and Power District (SRP).

SRP is a political subdivision of the State of Arizona and provides power and water service to most of the Phoenix metropolitan area. State law gives it the authority to set prices for the sale and distribution of electricity to the approximately one million customers in its service territory.

In its opinion, the Court of Appeals determined that because the publicly owned utility sets its own electric rates, it does not benefit from the legal protections enjoyed by other regulated entities. Specifically, the filed-rate doctrine—which can bar federal antitrust claims based on rates approved by state agencies—was inapplicable because SRP "does not file its rates with anyone other than itself."

Background

In 2015, SRP adopted a new pricing scheme that established separate rates for rooftop solar customers, charging solar customers up to 65 percent more than its non-solar customers (who saw their rates go up approximately 4 percent). After adopting the new pricing plan, SRP then ran advertising that promoted its increased rates for solar customers, which resulted in a huge decrease in applications for third-party solar energy systems in SRP's territory.

Some of SRP's solar rooftop customers filed suit against the utility, asserting claims under the

Sherman Act, the equal protection clauses in the Arizona and U.S Constitutions, and various Arizona consumer protection and price discrimination laws. The complaint alleged that the price plan "discriminates against customers that use solar energy systems and disincentivizes further purchases and use of solar energy systems" by eliminating "the economic value in investing in solar energy systems to self-generate electricity."

The district court dismissed the complaint in its entirety, finding that the federal equal protection claim was untimely and that the complaint failed to show that the rate hike violated federal antitrust laws. The court found that the state-law claims were barred because they failed to plead injury under the state statutory requirements. On appeal, the 9th Circuit panel reversed, rejecting SRP's argument that the filed-rate doctrine barred the federal Sherman Act antitrust claim.

The Court's Ruling

The filed-rate doctrine, a judicially created rule, bars individuals from asserting federal civil antitrust challenges to a utility's rates that were previously approved by the Federal Energy Regulatory Commission (FERC) or a state public utility commission such as the Arizona Corporation Commission (ACC). The 9th Circuit explained that the doctrine "presumes at least some degree of independent oversight."

In this case, however, because SRP's board sets the utility's rates, without review by the FERC or the ACC, the appellate court found the doctrine inapplicable. Thus, the Court of Appeals reversed the dismissal of the federal claims and remanded the case to the district court for further proceedings. The 9th Circuit, however, did uphold the application of the Local Government Antitrust Act, which bars money damages, leaving only the possibility for declaratory and injunctive relief going forward.

This case arose in the context of distributed solar generation, and is important for that reason alone, but more broadly it could impact the rate setting of publicly owned utilities as they address the growing movement of their customers toward various forms of distributed generation and storage. Specifically, it could open the door to more antitrust litigation against publicly owned utilities as they navigate the balance between deployment of third-party vs. utility-owned energy resources.

Davis Wright Tremaine LLP – Barbara S. Jost, Patrick J. Ferguson and Taylor Sutton

February 18 2022

State Farm Stadium to Get Bond-Financed Upgrade Before Next Super Bowl.

- **Arizona agency sets $146 million sale for home of Cardinals**
- **Portion of proceeds to finance improvements for 2023 event**

Fans at Super Bowl LVII in Arizona next year may want to take time to inspect State Farm Stadium. After all, they're helping to pay for a bond-financed spiffying up of the place.

The Arizona Sports and Tourism Authority, owner of the NFL's Cardinals home in Glendale, is slated to sell $146.3 million of municipal bonds for the facility, site of the big game next February. While much of the proceeds will refinance outstanding debt, a portion will go to improve heating, ventilation and air conditioning, buy new furniture and replace the carpets and floor, according to preliminary bond documents.

“This bond sale will help keep State Farm Stadium at the forefront of the competitive and evolving mega events industry,” said Teddy Eynon, board chair of the authority, in an e-mailed statement.

The bonds are backed by revenues including tourism taxes, like those on hotels where fans will be billeted and surcharges on cars they may rent, plus money from concessions and merchandise sales at the stadium. In an unusual twist, the bonds are also supported by a subset of the state income tax levied on National Football League employees, namely players, coaches and staff for the Cardinals.

The deal, managed by RBC Capital Markets, comes just days after the Los Angeles Rams beat the Cincinnati Bengals in a Super Bowl that drew 112.3 million viewers, the most-watched show in five years. Fitch Ratings grades the bonds A and recently raised the outlook on the debt to stable from negative. The debt is rated A1 by Moody’s Investors Service.

The 63,000-seat stadium, completed in 2006, sits on about 33 acres outside Phoenix and boasts a retractable roof, 88 luxury suites, and three over-sized event spaces plus premium club seating and private lounge areas. The climate-controlled arena hosted the Super Bowl in 2008 and again in 2015, the same year it held the league’s Pro Bowl.

The two 2015 games and their related events produced a $719.4 million gross economic impact for the region, the largest of any event in Arizona at the time, according to a study completed by the Seidman Research Institute, W.P. Carey School of Business at Arizona State University.

Cities often compete for major sporting events, convinced that they’ll bring a windfall of economic activity from fans and tourists. Some economists maintain that the impact is generally overblown, though such events are important for small businesses and the cultural and tourism draw of a city, especially since the coronavirus pandemic.

The authority and the Cardinals are investing in the stadium improvements in anticipation of the Super Bowl, the 2024 National Collegiate Athletic Association men’s basketball March Madness Final 4 games and other major events that attract out-of-state visitors, Eynon said.

“Tourism in Arizona is rebounding and we want to offer the highest technological amenities and guest service experience in the industry,” he continued.

And perhaps hosting the 2023 Super Bowl could bring good luck to the Cardinals, tied for 11th in odds to win next year’s game at +2,500 according to Caesars Sportsbook. In 2021, the Tampa Bay Buccaneers took the title at their home stadium before the Rams won in Los Angeles this year.

Bloomberg Markets

By Danielle Moran

February 17, 2022

Puerto Rico’s Restructured Debt Poised to Boost High-Yield Muni Market.

- **Officials aim to restructure Puerto Rico’s debt by March 15**
- **Puerto Rico set to begin repaying bondholders this year**

Puerto Rico is poised to exit bankruptcy and begin paying bondholders again, a milestone that’s likely to boost not only the value of commonwealth debt but also other risky state and local securities.

Puerto Rico stopped paying debt service in 2016 and then fell into the biggest bankruptcy ever in the $4 trillion municipal bond market the following year. Now Puerto Rico's financial oversight board is set to execute a restructuring plan, approved by a court last month, that will slash $18.8 billion of commonwealth-guaranteed debt down to $7.4 billion.

Prices on the newly restructured Puerto Rico securities are expected to increase following the debt exchange. That could help the high-yield municipal-bond market rebound from declining as yields have increased on anticipation that the Federal Reserve will raise interest rates.

"A rising tide lifts all ships," said Jeffery Burger, a senior portfolio manager at Insight Investment Management who runs the group's high-yield fund, "If Puerto Rico does well given they're so important to the high-yield market, that has the potential to knock onto other high-yield investments."

Below-investment-grade municipal securities and unrated state and local debt has dropped 3.5% this year and high-yield Puerto Rico debt has declined by 3.1%, according to Bloomberg Barclays Indexes.

Puerto Rico debt has a history of trading up in price once it's been restructured. A commonwealth bond backed by sales-tax revenue and maturing in 2058 traded Thursday at an average price of 110.5 cents on the dollar, up from 97.4 cents in February 2019 when Puerto Rico restructured the securities through a debt swap.

The oversight board on Feb. 21 is expected to certify a revised operating budget for the island that will include debt service costs for the fiscal year ending June 30 and also allocate $10.8 billion in cash payments to investors, insurance companies and public workers. The island needs an amended budget with those allocations in order to complete the debt restructuring.

"Once it's finalized there's more value to the bonds because a deal's been done and they're paying," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages $35 billion of state and local debt, including Puerto Rico. "There might be more demand as investors want to get the yield and invest in a bond that they haven't been able to in awhile."

Along with the new bonds, investors will receive a combined $7 billion upfront cash payment as part of the restructuring deal. That's money that may find its way into risky municipal-debt investments.

"It'll create another large liquid bond in the market," Solender said. "If it works out, it's good for the high-yield muni market to have another credit like that."

Bloomberg Markets

By Michelle Kaske and Danielle Moran

February 17, 2022, 12:00 PM MST

Illinois Weighs $1 Billion of Debt to Extend Pension Buyouts.

- **Proposal would follow similar amount authorized in 2018**
- **'It chips away at a much larger problem,' Fitch's Kim says**

Illinois lawmakers are considering a bipartisan proposal to authorize selling $1 billion of debt to pay for pension buyouts, in a bid to reduce the worst-rated state's massive unfunded liability for its retirement systems.

A bill introduced in December by state Representative Bob Morgan, a Democrat, would approve borrowing to extend a buyout option for many employees of the state, its universities and school systems. The debt would be on top of a previous authorization from 2018 to issue $1 billion of so-called pension-obligation acceleration debt, most of which has been sold.

The pension-buyout program has already cut Illinois's liability by $1.4 billion, but that still leaves an unfunded obligation of about $130 billion, state data show.

"It chips away at a much larger problem," Eric Kim, an analyst for Fitch Ratings, said in an interview. "But you are paying for it with debt."

A key distinction of the Illinois program is that it reduces liabilities, instead of replacing them with a bond obligation, as traditional municipal pension debt typically does, Kim said. Illinois has sold traditional pension securities, including $10 billion in 2003.

The proposal comes amid the biggest wave of municipal pension-obligation bond issuance in decades, and at a time when interest rates are still well below historical averages. States and localities sold around $13 billion of traditional pension-obligation debt in 2021. That was the most since 2003, when they issued $17.5 billion, including the Illinois sale, data compiled by Bloomberg show.

Illinois's unfunded pension liability, which ballooned for years largely due to insufficient state contributions, is a key drag on its credit ratings even after it got the first upgrades in two decades last year. Its finances are benefiting from an improving economy that's boosting revenue and billions in federal aid, but the state still has to solve its pension conundrum.

Moody's Investors Service upgraded the state to Baa2 from Baa3 last year, bringing it to two steps above junk. S&P Global Ratings lifted it to BBB from BBB-, while Fitch Ratings raised its outlook to positive from negative, but kept it at BBB-. Even amid the improving fiscal prospects, the firms cited pensions as a challenge.

The drag is apparent in the bond market, where Illinois 10-year debt trades at yields almost a full percentage point above benchmark munis, more than double the spread of New Jersey, which has grappled with its own pension-funding issues.

Costs Transformed

Illinois Representative Mark Batinick, a Republican co-sponsor of the legislation, said the early payout option for retirees allows the state to cut costs, and bonds let it transform variable costs associated with the unfunded liability into fixed expenses.

The buyout offers retirees accelerated payments in lieu of pension benefits or in exchange for reduced cost-of-living increases. The program was set to end in June 2021 but the General Assembly extended it through June 2024 following the recommendation of Governor J.B. Pritzker, a Democrat who's up for re-election this year.

The new legislation would add bonds and extend the program through June 2026.

The governor "is supportive of additional general-obligation bond authorization to provide additional funding for the buyout program," Jordan Abudayyeh, a spokeswoman, said via email.

Illinois has paid more than $820 million under the program as of Jan. 1, according to the governor's budget office. From the initial $1 billion bond authorization, Illinois sold $300 million in 2019, $350 million in 2020 and $235 million in 2021. On Dec. 31, $851.6 million in principal was outstanding.

The state may issue the remaining $115.4 million from the original authorization in fiscal 2023, which begins July 1, according to the governor's proposed budget. Next fiscal year, the state pension systems will need $312 million in additional pension-acceleration bond proceeds to meet retiree participation in the program, according to the budget.

Committee Approval

Representative Morgan says he's pushing for a full House vote within the next few weeks. The legislation passed unanimously in the chamber's personnel and pensions committee last month.

The proposal needs actuarial analysis and fuller vetting through greater public deliberation, said Laurence Msall, president of the Civic Federation, a government watchdog. The program also may not be as beneficial as broader structural reform or the addition of money on top of the statutory contribution that Pritzker has proposed in his latest budget, Msall said.

"We have not seen any actuarial analysis for the cost of the borrowing compared to the savings and what's necessary to achieve that," Msall said in an interview.

Bloomberg Markets

By Shruti Singh

February 16, 2022

[Fitch: Illinois Slowly Inching Towards Pre-Pandemic Strength]

Fitch Ratings-New York-16 February 2022: Illinois' recently released executive budget shows a state making more fiscally sound decisions and painstakingly building towards a return to the state's pre-pandemic rating, or as Fitch Ratings states in a new report, possibly even higher.

Continued improvements in Illinois' operating performance highlight the state's recent economic and fiscal progress with legislative deliberations on the budget beginning in earnest soon. "Illinois' once-towering backlog of unpaid bills has been steadily reduced, with more improvements possible if the governor's proposals are implemented," said Eric Kim, Fitch's head of state government ratings and lead analyst for Illinois.

Like many states, Illinois benefited significantly from the broad national economic recovery thanks mainly to the trillions in federal economic stimulus approved by Congress. $8.3 billion in direct federal aid from the American Rescue Plan Act's (ARPA) Coronavirus State Fiscal Recovery Fund (SFRF, $8.1 billion) and the Coronavirus Capital Projects Fund (CCPF, $254 million) provides further boost to the state's fiscal and economic outlook. The governor proposes using approximately $535 million of remaining ARPA aid in 2023 on one-time uses. According to Kim, this largely non-recurring usage of aid will avoid creation of a fiscal cliff.

Despite its progress, Illinois is not without lingering challenges, in this case pension liabilities. Despite the budget requiring annual pension system contributions to reach 90% funded by 2045, Fitch deems this amount inadequate to fully address the state's sizable pension burden. In fact, "Illinois' pension liabilities and related contribution demands will grow over time if the state continues to underfund the systems," said Kim.

Pension challenges aside, Illinois' fiscal decision-making has improved markedly of late. "Continuing more normal fiscal decision-making process, including on-time budgets that address fiscal challenges primarily with sustainable measures, could support positive rating action," said Kim.

"Illinois' Executive Budget – A Credit View" is available at www.fitchratings.com.

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Philadelphia Bill Would Establish First Ever Municipal Public Bank Entity.

The stated mission of the proposed Philadelphia Public Financial Authority is to support Black-owned businesses and other businesses in neighborhoods that have historically lacked access to credit.

After coming into office in 2016, the first bill Philadelphia City Council Member Derek Green passed was a resolution to initiate hearings on establishing a "public bank" in Philadelphia.

That resolution took as a model the state-owned Bank of North Dakota, established in 1919 and still a thriving, profitable institution with $10 billion in assets today. By law, all of the state government's deposits are held at the Bank of North Dakota. With that as its deposit base, the bank partners with private banks and credit unions all over the state to finance economic development, making loans to support everything from huge infrastructure projects to small local businesses like F-M International Foods, an immigrant-owned grocery store in Fargo.

In order to avoid competing with the private sector, the state-owned bank primarily uses what's known as "loan participations" — private lenders originate the loans, but behind the scenes the Bank of North Dakota agrees to supply a share of the borrowed amount in exchange for a share of the interest paid on the loan. Loan participations are a way for banks to manage risk and do more loans or larger loans than they otherwise might by themselves. In a typical year, the Bank of North Dakota says it makes around 800 business and agriculture loans in partnership with private lenders across the state. In 2020, it made more than three times that amount: 2,500 loans as well as emergency grant distributions.

Continue reading.

NEXT CITY

by OSCAR PERRY ABELLO

FEBRUARY 17, 2022

Philly Is Poised to Become the First U.S. City to Run Its Own Bank.

Supporters say public banking will boost Black and brown businesses and spur investment in disadvantaged areas. Critics worry, but is municipal government any more shady than the private sector?

Philadelphia is moving closer to becoming the nation's first city to charter a public bank, with City Council scheduled to vote March 2 on creating a Philadelphia Public Financial Authority.

Proponents believe it would help Black and brown entrepreneurs and provide much-needed financial services to disadvantaged residents. Critics worry about set-up costs, and question whether funds deployed by a public bank would truly be independent from political influence.

One of the idea's boosters is Brittany Alston, research director at the Action Center on Race and the Economy, one of the organizations that formed the Philadelphia Public Banking Coalition

Continue reading.

billypenn.com

by Jordan Levy

Feb 18, 2022

American Dream Mall Owner Seeks Payment Extension on $1.7 Billion Loan.

- **JPMorgan led group of lenders for 2017 construction financing**
- **New Jersey mall recently used reserves to pay municipal bond**

The owner of the American Dream super-mall in New Jersey is seeking a four-year extension to repay $1.7 billion in construction financing after project holdups and pandemic lockdowns kept shoppers away, according to people with knowledge of the talks.

Triple Five Group, American Dream's owner, is asking a group of lenders led by JPMorgan Chase & Co. for more time to repay loans made in 2017, said the people, who asked not to be identified because the talks are private. The 2017 debt included a $1.2 billion senior loan and a $475 million mezzanine loan that was supposed to be repaid last year.

The talks are part of a larger effort to restructure the mall's $3 billion in debt and avoid bankruptcy for the massive shopping and entertainment complex in New Jersey's Meadowlands, the people said. The mall also has about $800 million in municipal bonds that are senior in repayment rank to the construction financing. Triple Five said last week that the mall nearly depleted a reserve account to make a $9.3 million interest payment on another $287 million of municipal bonds supported by sales tax receipts.

Representatives of Houlihan Lokey Inc. and law firm Weil Gotshal & Manges, the advisers representing the developer, declined to comment on the talks, which are private and still in progress.

A loan extension typically would require the borrower to contribute new equity to the project, pay a higher interest rate and make other concessions to satisfy lenders. The 2017 loans initially required interest-only payments ranging from 6.75% to 9.75% above the benchmark London interbank offered rate, rates that increased by 0.5% in the third year.

The lenders include Barry Sternlicht's Starwood Property Trust Inc., Goldman Sachs Group Inc., CIM Group and iStar Inc., Bloomberg previously reported. The lenders are being represented by Moelis & Co. in the negotiations. Representatives of all the lenders declined to comment.

American Dream's 2019 opening came after almost two decades of development delays, and just months before the arrival of the Covid-19 pandemic, which shut down retail shopping and entertainment venues. American Dream reopened in 2021.

The mall's sales for the fourth quarter, typically the biggest for retailers because of holiday shopping, totaled $82.4 million, down almost 1% from sales in the third quarter. Its luxury wing, anchored by Saks Fifth Avenue, opened in September.

Don Ghermezian, co-chief executive officer of American Dream, attributed the decline to a confluence of disasters: Flooding from Hurricane Ida in August and September damaged some shops, followed by an electrical fire that damaged the mall's indoor ski slope and several other stores. The ski hill, which is part of a slew of the 3 million-square-foot mall's entertainment offerings, is expected to reopen in May.

Bloomberg Markets

By John Gittelsohn and Erin Hudson

February 9, 2022

Illinois Comptroller Urges Credit Upgrades in Letter to Rating Firms.

- **State's moves 'favor upgrading' bond rating, Mendoza writes**
- **Touts unpaid bill backlog reduced, emergency loans paid back**

Illinois Comptroller Susana Mendoza is urging the top three credit rating firms to again bump up her state because of its mounting fiscal improvements that already led to its first upgrades in two decades last year.

“I believe Illinois is due to be recognized for our current achievements and plans to further strengthen our financial situation, and I believe these are strong indicators that favor upgrading Illinois’s credit rating,” Mendoza wrote in a letter dated Feb. 4, viewed by Bloomberg News.

Mendoza, a Democrat who took office in late 2016, wrote similar letters advocating for the firms to take the state’s progress into account in April and then pushing for higher ratings in July. Illinois received an upgrade from Moody’s Investors Service in June to Baa2 from Baa3. S&P Global Ratings lifted its score to BBB from BBB- in July amid rebounding revenue and billions in federal aid. And Fitch Ratings raised its outlook on the debt to positive from negative in June but maintained its BBB- rating.

The gains lifted Illinois from the brink of junk, though it still has the lowest rating of any U.S. state. Moody’s and S&P consider Illinois two steps above junk, while Fitch has it one level above junk.

Mendoza’s letter last week touts the recent progress. Illinois has reduced its unpaid bill backlog to below $3 billion; paid back early the full $3.2 billion in emergency loans taken in 2020 from the Federal Reserve’s Municipal Liquidity Facility; and it intends to repay the remaining $719 million in state interfund borrowing by the end of the fiscal year on June 30, Mendoza wrote.

“If this information is not sufficient to lead to a favorable review, Governor Pritzker’s recently announced budget proposal will surely check off any remaining doubts that Illinois is on the right track to fiscal stability,” Mendoza said. “I am hopeful this will be welcome news to you and that your ratings agencies will reward Illinois with yet another credit upgrade.”

Governor J.B. Pritzker, the first-term Democrat who is up for re-election in November, put forward a $45.4 billion budget for the year starting in July last week, proposing to cut spending 3.4% from this fiscal year with a projected general-fund surplus of $458 million.

The budget includes a $279 million contribution to the Budget Stabilization Fund, also known as the rainy day fund, after a $600 million contribution in fiscal 2022. The fund currently holds $22 million, according to the comptroller’s website.

Additionally, the governor has proposed extra pension contributions of $500 million total above the annual payment in fiscal 2022 and 2023 to go toward the unfunded retirement liability standing at about $130 billion.

Next year’s budget won’t erase burdens the state has created for itself over decades, but investors and credit rating firms have said measures such as increasing its rainy day fund and pension payments will improve its credit prospects.

Pritzker has also proposed nearly $1 billion in tax relief with a one-year suspension of the state’s grocery tax and freeze of a gasoline tax increase as well as higher property tax rebates.

“The governor’s proposals are likely to meet with approval by credit rating agencies, leaving Illinois poised for positive rating news this calendar year as its credit slowly normalizes,” CreditSights Inc. wrote in a report on Feb. 2.

The rating firms did not comment specifically on the prospects for upgrades in the days after the governor’s budget address but are taking note of the use of rebounding revenue to rebuild its finances.

“Those are positive steps forward,” Matthew Butler, vice president-senior credit officer for Moody’s, said in an interview last week.

S&P analyst Geoffrey Buswick said a budget proposal by itself wouldn’t trigger a credit action and there are still months of budget negotiations ahead of the state. Lawmakers have to approve Pritzker’s spending plan.

Meanwhile, Fitch’s positive rating outlook means the state could see an upgrade in one to two years if current trends continued.

“Fitch always appreciates opportunities to hear directly from policymakers to help us understand their thought processes and the factors they are considering as they make fiscal choices,” Fitch analyst Eric Kim said in an emailed statement Monday.

A budget impasse 2015 through 2017 between former Governor Bruce Rauner, a Republican, and the Democrat-controlled state legislator led to unpaid bills topping $16 billion in 2017. But Illinois has since benefited from an economic recovery with the budget proposal reflecting revenues above past projections, according to Fitch.

“We are continuously evaluating fiscal and economic developments for the state, including information discussed with the Comptroller’s office and with the administration, and our rating perspective remains the same as outlined when we revised the outlook to positive,” Kim said.

Bloomberg Markets

By Shruti Singh

February 7, 2022, 11:38 AM PST

[Longwood Gardens’ $250 million Renovation Taps Increasingly Popular ‘Green’ Bonds.]

Want to spruce up your portfolio with environmentally-friendly fixed income? Green bonds may be the answer — with caveats.

Renowned for its sumptuous plantings and exuberant orchids, Longwood Gardens is going green in a new way: “green bonds.”

Its $250 million renovation is being funded through a combination of grants, endowment money, and a tax-exempt “green” bond issue for $200 million in 2021.

It’s traditional for companies, towns, and nonprofits to finance projects with bonds, which are essentially loans from investors that promise to repay principal with interest. But Longwood is using a fast-growing tool — green bonds — which are marketed to investors who aim to back environmentally friendly projects.

Continue reading.

The Philadelphia Enquirer

by Erin Arvedlund

Updated Feb 13, 2022

[Atlanta District's Secession Bill Is Dead, Georgia Leaders Say.]

- **Lieutenant governor, House speaker say Buckhead will remain**
- **Losing the neighborhood would have dealt blow to revenue**

The wealthy district known as Buckhead will remain a part of Atlanta for now after key Republicans in Georgia's state legislature said they oppose letting citizens vote on secession.

House Speaker David Ralston told the Atlanta Journal-Constitution that he was putting the legislation on hold. Lieutenant Governor Geoff Duncan, who presides over the Senate, told the newspaper in a separate interview Thursday that he opposed the secession movement. Without support from the leadership, the move stands little chance of passing.

"It takes two chambers to pass a bill. The Senate was very clear and I respect their decision," Ralston told the newspaper.

Efforts to reach Bill White, a resident who heads the pro-deannexation Buckhead City Committee, weren't immediately successful.

Duncan said Atlanta's new mayor, Andre Dickens, deserves an opportunity to resolve issues, such as an increase in crime, that secession proponents say are the reasons they seek to separate the majority White area from the predominantly Black city.

The Democratic mayor, who took office in January, applauded the move in the legislature.

"We will remain one city with one bright future," Dickens said in a statement. The lawmakers "have given me and my administration the runway we need to take off, and we will continue in our work to move Atlanta forward."

The deannexation of Buckhead would have been devastating to Atlanta's finances. The pro-Buckhead group estimated that it contributed about 40% of Atlanta's revenue. Groups opposed to deannexation warned that it could result in Atlanta seeing credit-rating downgrades.

Tom Gehl, director of governmental relations for the Georgia Municipal Association, said the lawmakers' comments splash cold water on the deannexation effort. The group, which represents municipal governments in Georgia, opposed the idea.

"Both of those are very encouraging signs that the proposed Buckhead City won't be on the docket for this 2022 session," he said.

In February, businesses in Buckhead urged lawmakers to table legislation to create Buckhead City. "The proposed Buckhead City worsens many of the problems it aims to solve in Atlanta and simultaneously creates new issues across the state," they said in the letter.

Gehl said the Buckhead deannexation efforts could have threatened Atlanta's reputation as being friendly to business.

"Having this distraction, having this assault on the brand, is detrimental to the state in general," Gehl said.

Bloomberg Politics

By Brett Pulley and Amanda Albright

February 11, 2022

— With assistance by Eliza Ronalds-Hannon

[Atlanta's Wealthy, White Suburbs Want Their Own Cities.]

As metro Atlanta diversifies, some state lawmakers are trying to draw new city boundaries around race and class. Academics see it as a variation of "white flight."

Like most of metro Atlanta, the suburbs of Cobb County have been becoming more liberal and diverse. So much so that in 2020, Cobb County's board of commissioners changed from majority-Republican to majority-Democrat for the first time in decades, with the election of three Black women. One of them, Lisa Cupid, is the first African American and woman to chair the board of commissioners in the county's history.

Now, some Georgia lawmakers are advancing bills that could turn several wealthy — and majority-white — Cobb County neighborhoods into new cities, moves that would give these communities more control over local resources. Residents of East Cobb, Lost Mountain and Vinings will be able to vote on creating the new municipalities as early as May if the full Georgia general assembly approves legislation that would create ballot referendums for each. Cobb County Chair Cupid says a May ballot doesn't give the county enough time to finish a study on the financial impact of the new city formations. Meanwhile, a bill to create a more economically and racially diverse city in south Cobb County called Mableton has yet to move forward.

[Continue reading.]

Bloomberg CityLab

By Brentin Mock

February 11, 2022

[Atlanta Fends Off Wealthy Enclave's Effort to Leave the City.]

- **Buckhead movement collapses amid opposition, logistic hurdles**
- **Secession would have dealt deep blow to capital's finances**

Atlanta has fended off — for now — a push by a wealthy enclave to break off from the Georgia capital after opposition from the city, business community and school leaders alike.

Republican state leaders essentially nixed the idea of allowing residents in the district known as Buckhead, an upper-crust area home to about 20% of the city population, to vote on deannexation later this year. House Speaker David Ralston told reporters on Friday that the legislation wouldn't be considered this session after Lieutenant Governor Geoff Duncan, who leads the state senate, voiced opposition to it.

The collapse in support saves Atlanta from a potentially devastating blow to its finances, with one pro-cityhood estimate showing that losing Buckhead would cost the capital approximately 40% of its tax revenue. A split also would have essentially segregated the wealthy, White area from the mostly-Black city of Atlanta.

The effort ultimately couldn't overcome logistical hurdles, such as failing to provide detailed plans for Buckhead's students, a new police force, or its stated proposal to share the burden of repaying Atlanta's outstanding debt.

Still, the push went further than many thought possible, and proponents are indicating they'll try again. The effort had been led by Bill White, a fundraiser for Donald Trump and chief executive officer of the Buckhead City Committee, who had seized on violent crime in the area to argue for creating a new city with better services. He couldn't be reached for comment Friday.

"Common sense is prevailing," said Michael Handelman, a Buckhead resident who co-founded a neighbors' group that advocated against deannexation. He said that cityhood doesn't offer a "rational" path to addressing public policy challenges facing Atlanta and other cities.

"It's the equivalent of burning your house down because you don't like the kitchen sink," he said.

The GOP leaders' announcement will give Atlanta Mayor Andre Dickens, who took office in January, more time to address Buckhead residents' concerns with crime and other issues. "They have given me and my administration the runway we need to take off, and we will continue in our work to move Atlanta forward," he said in a statement on Friday.

Duncan raised the logistical concerns on Thursday in an interview with the Atlanta Journal-Constitution.

"What is the strategy to stem crime? What is the strategy to deal with Atlanta public schools in the city's footprint? What are the finance ideas around the bond package?" he told the paper. "Those questions haven't been answered."

Supporters of deannexation may look to continue their effort, possibly through new and more detailed legislative proposals.

Christian Zimm, the vice president of communications for the BCC who is running for election to Georgia's Atlanta-based 5th Congressional District, said the movement is "far from over."

"We'll see what happens in the rest of the session," he said, speaking in his capacity as a candidate for Congress. "We've made a lot of progress this year getting two bills into the legislature, and people thought it would never get this far."

Indeed, GOP leaders left open the possibility that the legislation could be on the table again next year. Ralston, the House speaker, told reporters Friday that he would be watching to see how city leaders address crime.

"We'll be back next year if things haven't changed a lot," he said.

The secession of Buckhead would strike at the power of the city's Black political class. Atlanta as a whole is 51% Black, according to 2019 census data. An analysis by the Atlanta Journal-Constitution found that the new Buckhead City would be roughly three-quarters White.

Black residents have been involved in a 50-year project to accrue power in the city, beginning with the election of the first Black mayor, Maynard Jackson, in 1973. Today, a mostly Black cast of elected officials is in charge of the largest city in the South, which has one of the highest concentrations of Fortune 500 company headquarters in the nation.

Financial Realities

Businesses in Buckhead urged lawmakers this month to table legislation to create Buckhead City, saying that it would be costly to create a new city from scratch. Some officials expressed concern that deannexation would threaten the Atlanta's ability to attract companies and continue to develop its economy.

Losing Buckhead would potentially leave Atlanta to manage its debt load with a dramatically reduced revenue base. The city had about $274 million of general-obligation bonds outstanding in fiscal 2020, according to its financial report.

Lobbying groups and grassroots organizations had made the case to state lawmakers that deannexation would threaten Atlanta's standing in the bond market, raising the risk of rating downgrades and an attendant rise in its cost to borrow.

The Buckhead cityhood movement claims that the new city would simply cover its pro-rata share of Atlanta's debt, or around 40%. But opponents of deannexation cast doubt on their ability to do so without legislation authorizing that step — and even then, there would likely be legal challenges, they said.

Recent history elsewhere in Georgia demonstrated the messy financial implications of deannexation. In 2018, the wealthy neighborhood of Eagle's Landing sought to deannex from the mostly-Black city of Stockbridge. The move was challenged by a lending arm of Capital One Financial Corp., which held nearly $12 million in Stockbridge bonds and filed a lawsuit claiming a move to deannex would violate the contracts clauses of the U.S. constitution.

Capital One's complaint detailed how deannexation would cost Stockbridge about half of the tax base backing the debt, "substantially impairing and eliminating a significant portion" of the security backing the bonds. Voters ultimately voted down the proposed new city.

The Georgia Municipal Association cited the Stockbridge example to lawmakers to indicate what is at stake with the Buckhead deannexation, said Tom Gehl, director of governmental relations for the group, which is against the effort.

Gehl said the moment brought to mind the Phoenix that's depicted on the city's seal.

A downtown sculpture called Atlanta from the Ashes, known as the Phoenix, represents its rise to a major Southern powerhouse after the destruction wrought by the Civil War.

"'Die out' doesn't mean that they don't have a chance of rising again like the Phoenix," he said. For that reason, he said his group was going to watch for any "trickery" in the legislature surrounding deannexation.

Bloomberg Politics

By Amanda Albright and Eliza Ronalds-Hannon

February 12, 2022, 5:00 AM PST

— *With assistance by Brett Pulley*

[California State Treasurer Announces 2022 Tax-exempt Debt Allocation for Affordable Housing Development]

State Treasurer Fiona Ma announces 2022 tax-exempt debt allocation for affordable housing development

California State Treasurer Fiona Ma announced the California Debt Limit Allocation Committee's (CDLAC) approval of more than $3.7 billion in allocation available for affordable housing in 2022.

CDLAC and the California Tax Credit Allocation Committee (CTCAC), both chaired by Treasurer Ma, authorize tax-exempt debt and award state and federal low-income housing tax credits (LIHTCs) that together were responsible for the production of 22,946 total units of housing in 2021.

"Affordable housing is a critical need for Californians. The Committees understand we are responsible for allocating resources that help developers build the units that are so desperately needed across our state," Treasurer Ma said.

The state and federal 4% and 9% LIHTC programs CTCAC administers incentivize the development of qualified new construction projects and the rehabilitation of existing properties. These tax credits are a critical equity source for producing and preserving affordable rental properties that help reach the Governor's goal of producing 3.5 million units of new housing in California by 2025. To access the federal 4% LIHTCs and specific state LIHTCs, developers must also be allocated private activity tax-exempt bond authority from CDLAC.

Combined, CTCAC and CDLAC have provided incentives that have allowed for greater production of housing units over the past several years. The number of housing units developed through these incentives in 2017 was 14,091 while 22,946 were produced in 2021. Last year, CTCAC and CDLAC authorized funding for 269 projects with bond allocation of more than $4.3 billion, nearly $550 million in annual federal LIHTCs and more than $600 million in state LIHTCs.

"The Committees and our teams are dedicated to helping solve California's housing and homeless needs through a strategic allocation process that will result in more homes for those that need it most," CDLAC and CTCAC Executive Director Nancee Robles said. "We know our available resources are outpaced by demand, yet we are confident that the allocation and awards are making a positive and direct impact throughout California."

Through the LIHTC programs, private investors receive federal and sometimes state income tax credits as an incentive to make equity investments in qualified affordable rental housing projects. Since 1986, more than 500,000 affordable housing units have been supported in California thanks to LIHTC funding.

Both CTCAC and CDLAC are achieving greater efficiency that maximizes the number of units that can be created with the scarce resources available. CTCAC also awards the 9% federal disaster LIHTC distribution. In 2021, 65 disaster credit applications were received, and 39 awards were awarded for $79.6 million.

Due to the success of the state LIHTC awards made in 2020 when the total allocation was increased from $109 million to more than $600 million, Governor Newsom approved another $500 million in state LIHTCs in 2021. Treasurer Ma looks forward to her role in administering these critically important programs in 2022.

California State Treasurer's Office

February 2, 2022

Head of Puerto Rico Oversight Board Resigns as Bankruptcy Ends.

- **Natalie Jaresko had been executive director since 2017**
- **Jaresko stepping down after court approved restructuring plan**

Natalie Jaresko, the executive director of Puerto Rico's Financial Oversight and Management Board, is resigning after helping the U.S. commonwealth through a historic bankruptcy.

Jaresko will step down April 1, shortly after a federal judge approved a debt-restructuring plan that will allow the island to emerge from the biggest municipal bankruptcy in U.S. history. In a statement, the oversight board said it's beginning the search for a new executive director and that Jaresko will assist with the transition.

In the position since March 2017, Jaresko helped hammer out the contentious deal approved last month that slashed Puerto Rico's overall debt by about 80%, according to the board.

"Puerto Rico has the strength, and the people of Puerto Rico have the dedication, to end this crisis and build a better future," Jaresko said in a statement, adding that the debt reduction had led the Caribbean island to "an important turning point."

While the board has been seen as a key player in fending off Puerto Rico's creditors, the body's power over local finances — and its ability to overrule elected officials — have also fueled resentment.

In statement, Governor Pedro Pierluisi acknowledged the "great differences" he'd had with the board, particularly around pension reform and "micromanaging government operations," but he said Jaresko had always "worked in good faith and in favor of what she believes is for the benefit of Puerto Rico in the long run."

"I wish her great success in her future endeavors and urge the members of the FOMB to ensure that whoever replaces her knows that we are in a transition stage toward the end of the Board's mandate," he said.

Before becoming executive director, Jaresko worked for the U.S. Department of State, was the Finance Minister of Ukraine from 2014 through 2016, and was a founding partner of Horizon Capital private equity fund.

Bloomberg Markets

By Jim Wyss

February 3, 2022, 9:51 AM PST

Amendments to the PA MPC Clarify Municipal Bonding Requirements.

Kicking off 2022, we can celebrate a win for builders and developers with the enactment of PA Senate Bill 208, which was signed into law by Governor Wolf on December 22, 2021.

SB 208 made numerous changes to Section 509 of the Pennsylvania Municipalities Planning Code (the "MPC"), which deals with posting financial security to guarantee completion of the public improvements depicted on a plat. Pursuant to Section 509, a municipality can require a developer to post financial security (usually in the form of a letter of credit or a bond) in an amount equal to 110% of the cost of the public improvements shown on the plan before releasing it for recording. These bonded improvements typically include roads, stormwater and drainage facilities, open space improvements, and required buffer landscaping.

Under the procedures outlined in Section 509, developers can request periodic reductions to the amount of financial security that a municipality is holding for a project as work progresses. Before SB 208, however, Section 509 contained language that some municipalities used to retain financial security equal to both the cost of the outstanding improvements and 10% of the original bond. As an example, imagine a situation where a developer is required to post a $1,000,000 bond with a municipality. The developer completes all but $75,000 of the required work and requests a partial release of the bond. Under former Section 509, even though the developer only has $75,000 of work to complete, some municipalities took the position that they were entitled to hold a bond of $175,000 (10% of the original amount of financial security posted plus the cost of the remaining improvements) – more than 2 times the cost of the remaining improvements. Obviously, such an outcome goes far beyond protecting a municipality's interest in ensuring a project is completed and negatively impacts a developer's ability to get bonded for other projects.

SB 208 modifies Section 509 to clarify that a municipality may only retain 110% of the value of the remaining improvements. So, in the previous situation, the municipality could hold $82,500 (the cost of the remaining improvements plus a 10% contingency). The full language of SB 208, which will take effect 60 days from the date of enactment, is available here.

McNees Wallace & Nurick LLC

February 1, 2022

Pritzker Seeks to Burnish Illinois's Newly Won Fiscal Reputation.

- **State last year got first debt rating upgrades in two decades**
- **Pritzker highlights fiscal improvement in re-election campaign**

When Illinois Governor J.B. Pritzker, the billionaire Democrat running for re-election, delivers his fiscal 2023 budget proposal next week, his aim will be to show taxpayers, investors and legislators that the state's financial gains are here to stay.

Illinois received its first credit upgrades in two decades last year amid a rebound in tax revenues and billions of dollars in pandemic-era federal aid. The improved finances allowed officials to pay years of backlogged bills and better investment returns helped the state reduce its unfunded pension liability for the first time since 2017.

It’s been a dramatic reversal for the state with the lowest credit rating. At the end of 2020, Illinois risked a downgrade to junk-bond status after taking emergency loans from the Federal Reserve to allay revenue losses from the pandemic. The state had almost no rainy day fund, paid an ever-higher penalty to borrow in the $4 trillion municipal bond market and Pritzker’s plan to collect more taxes from the wealthy was rejected by voters.

“The state has done a lot in recent years to right its fiscal ship,” said Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois in Chicago. “Is that a blip in a long-term trend or is this the start of an upward trajectory in the state’s finances?”

The state has a history of financial missteps. Its unfunded pension liability had ballooned because it didn’t contribute enough for decades, leading it to take on billions in debt. An impasse between former Governor Bruce Rauner, a Republican, and the Democrat-controlled General Assembly resulted in the state having no budget from 2015 to 2017, sending unpaid bills soaring and creating more debt.

In recent campaign ads, Pritzker presents himself as the financial conservator the state needs. He says he plans to keep working to responsibly manage the budget, reduce Illinois’s interest costs, further cut the bill backlog and earn more credit upgrades. His budget proposal, scheduled for Feb. 2, is expected to outline some of those efforts.

“What they’ve seen for three years is very responsible fiscal leadership,” Pritzker said in an interview earlier this month, referring to the state’s stakeholders.

The penalty Illinois pays compared to benchmark 10-year municipal securities has remained under 1 percentage point for the last nine months, after reaching more than four percentage points in May 2020, but it’s still the highest among peers. The bill backlog sits around $3 billion, from about $5 billion a year ago.

While Illinois was the only state to tap the Fed’s Municipal Liquidity Facility during the pandemic, it repaid the full $3.2 billion early. When S&P Global Ratings and Moody’s Investors Service upgraded the state in mid-2021 to BBB and Baa2 respectively, they cited not just the federal aid but better financial management as well. Fitch Ratings boosted its outlook to positive from negative for Illinois, and rates it BBB minus.

For fiscal 2022, the state has forecast a surplus of $418 million, bigger than an earlier estimate, citing cost cuts, use of part of its more than $8 billion in American Rescue Plan Act money, and higher revenue from sales and income taxes. The state kept most spending unchanged, other than education and vital services, Pritzker said.

“We intend to continue to be responsible,” he added.

For fiscal 2023, Pritzker’s budget office in November projected a deficit of $406 million, smaller than previously forecast. The governor declined to comment on specifics on spending and revenue for fiscal 2023, which begins July 1, such as whether he plans to increase the rainy day fund contribution beyond the already proposed $300 million.

Illinois in November forecast shortfalls will return in fiscal 2023
Source: Illinois Governor’s Office of Management and Budget
“The goal would be to keep spending below the level of natural growth that would occur in the budget in terms of revenue, so that we can continue to put together a surplus for the state,” he said.

Pension Peril

An upgrade could be in the offing if Illinois continues passing budgets on time, institutionalizes financial management and keeps paying down debts and bills, said Eric Kim, an analyst for Fitch Ratings. Pensions remain a challenge, Kim said.

"If there's an opportunity for us to transfer assets, whether it's cash or anything else, into the pension system that would reduce that net pension liability without having a detrimental impact upon our budget or upon the people who are recipients, vulnerable populations that are recipients of state services, we will always look at that," Pritzker said, without offering specifics.

The overall pension system's strong investment returns recently provided some help, but that may be temporary. Illinois's total unfunded pension liability across five state-run systems fell 10% to $130 billion on June 30 from a record in fiscal 2020, the Commission on Government Forecasting and Accountability said in a December report.

ARPA Spending

The billions the state has received from the federal stimulus packages, including the American Rescue Plan Act, can't be used for pensions or debt. The governor's budget is expected to shed light on plans to spend remaining federal funds, said Laurence Msall, president of the Civic Federation, a government watchdog group. Potential contributions to the rainy day fund or the state's unemployment insurance trust fund debt are possible and will get scrutiny, he said.

"Investors are going to be looking for a continuation of the demonstrated fiscal discipline and not letting this very unique opportunity go to waste," said Ty Schoback, a senior municipal research analyst for Columbia Threadneedle Investments, which holds $17 billion in muni assets, including Illinois debt.

Pritzker says any concerns about higher ongoing spending given the influx of federal aid are misplaced.

"We have not dedicated any ARPA dollars to recurring programs," said Pritzker, adding he and Democratic leaders of the General Assembly insist on this restraint. "Everything that we have dedicated those ARPA dollars to are one-time expenditures. We've been very disciplined about that from the beginning."

Bloomberg Markets

Ohio Promised $2.1 Billion in Incentives to Lure Chipmaker Intel.

- **Intel chose Ohio site for its new $20 billion chip-making hub**
- **Subsidy package exceeds what Samsung, Amazon received**

The state of Ohio and its private economic development group offered Intel Corp. $2.1 billion in incentives to lure the chipmaker to the state, winning a national competition for the employer.

The chip-maker announced last week that it will invest $20 billion to construct two fabrication plants on a 1,000-acre site in New Albany, near Columbus.

Once Intel develops the site, local property tax abatements will further enhance the $2.1 billion subsidy package, which exceeds what other high-profile companies have been promised in recent years for their projects.

Intel said it expects the plants to be operational by 2025, with the potential for more factories and total company investment over the next decade reaching $100 billion. The plan will rely on the most advanced technologies and result in an increased American share of the global chip supply chain, the company said.

State officials hailed the “mega project” as the largest single private-sector company investment in Ohio history. It brings semiconductor production to a state that has lost almost 30% of its manufacturing jobs over the last two decades and struggled to shake its Rust Belt image.

The state is offering $1.2 billion in cash incentives, including a $600 million direct grant to the company to offset the cost of construction, as well as $691 million to help cover infrastructure costs. Intel is further eligible for a 30-year, $650 million job-creation tax credit, conditioned on Intel making good on pledges to add to its Ohio payroll.

JobsOhio, the state’s private development entity, in addition said it will provide Intel with as much as $150 million in combined economic development and workforce grants, bringing the known total to $2.1 billion.

“This is a massive offer larger than many state programs,” Nathan Jensen, an economic incentives expert at the University of Texas Austin, wrote in an email. He called it a “marketing ploy” for Ohio to label its effort to out-compete other states as “onshoring production.”

Chipmakers have recently been awarded generous subsidies by states eager to attract business. To land a $17 billion investment from Samsung Electronics Co., state and local officials in Texas rolled out a package that included waiving almost all the company’s property taxes for 25 years, a $314 million reduction in school district taxes and a $27 million state grant.

The Ohio subsidies for Intel are larger than what Amazon.com Inc. received — about $775 million — to build a second headquarters in Northern Virginia.

The total value of Intel’s local property-tax abatement is not known since it covers buildings that haven’t yet been constructed. It’s also not known if Ohio will issue municipal bonds to help cover the infrastructure development costs, the state’s director of development, Lydia Mihalik, said Friday.

The incentives were “certainly a piece of the puzzle” in drawing the company to Ohio, in addition to the state’s workforce and leadership, Mihalik said.

Intel isn’t the first company to be attracted by the state’s subsidies, according to data from Washington-based policy group Good Jobs First. General Electric Co. and Amazon both received more than $200 million in incentives. The state has awarded $5.7 billion in incentives since 1983, with most of that coming in the last decade, the group said.

The Santa Clara, California, company said the project is expected to generate more than 20,000 jobs in Ohio, including 3,000 corporate positions earning an average of $135,000 a year, plus benefits. It will add $2.8 billion to Ohio’s annual gross state product and bring in new businesses to support the chip factories, officials said.

Intel is also counting on the U.S. to deliver additional financial incentives to support an expansion of domestic chip manufacturing. Congress is currently considering funding for the CHIPs Act, a measure that has passed the Senate but not the House. It would create a $50 billion pot of money for companies willing to locate production in the U.S.

Intel Chief Executive Officer Pat Gelsinger said while Intel is making the initial investment for the two factories in Ohio, planned expansion beyond that will be slower and possibly not as big if the CHIPs act is not enacted.

"We're making this bet today assuming CHIPs Act gets done," Gelsinger said at a press conference in Ohio last Friday to announce the project.

Gelsinger has said Intel chose the Ohio location from among 30 to 40 prospective sites and that the availability of potential employees from local universities, military veterans and the relatively cheap cost of labor were also factors.

Keyvan Esfarjani, Intel senior vice president of manufacturing, supply chain and operations, said Ohio offered the best combination of a favorable regulatory environment, available talent pool and infrastructure.

Intel said it pledged $100 million toward partnerships with state educational institutions to build a pipeline of employees and to bolster research programs in the region.

Bloomberg Markets

— With assistance by Ian King

Hoboken Balks at $241 Million School With Its Own Ice Rink.

- **Hoboken Balks at $241 Million School With Its Own Ice Rink**
- **Anti-referendum group wanted focus on academics, not amenities**

Hoboken voters sent a clear message that a $241 million school-construction proposal was excessive, rejecting a tax hike as the Board of Education's solution for the New Jersey city's swelling population.

Opponents said the proposal for a new high school with an indoor ice rink and rooftop football field lacked transparency and was rushed.

With 100% of districts reporting unofficial results, voters in the square-mile city across the Hudson River from Manhattan were rejecting the proposal about 2-to-1.

"We believe that local, long-term investment, which includes community involvement, in our education system, is important and necessary, and we look forward to discussing our plans moving forward," the Board of Education said in a statement on Wednesday.

Jerome Abernathy, a resident and father of two, said the funds should have been targeted more at academic improvements and less on amenities. He said he would have been happy to pay higher taxes for that.

"My kids went to the Dalton School, it costs a lot of money, it's one of the best high schools in the country, and they didn't have amenities like that," said Abernathy, who has lived in Hoboken since 1991.

Abernathy handled advertising strategy for Hoboken for Public Schools, organized to get no-voters to the polls. Its targets included empty-nesters, alternative-school advocates and single-family homeowners. The strongest dissent came from residents surprised by how quickly the proposal materialized and was placed on the ballot, Abernathy said. He said he spent about $5,000 of his own on the group's effort.

Of 10 school-bond referendums on Tuesday's ballot in New Jersey, Hoboken's was the only one to fail, according to the New Jersey School Boards Association. Hoboken's $241 million price tag was over 60% of the total amount put to voters across the state.

The nine approved referendums ranged from $985,000 to $33 million, and all were to receive some state aid for debt service, unlike Hoboken.

Prior to the vote, Hoboken School Board President Sharyn Angley said there was "no contingency plan" should the referendum fail. The board has to wait a year before a new plan can be placed on the ballot.

"We certainly intend to engage the community with more input," said Jane Mylan, 44, who supported the bond through Friends of the New Hoboken High School. She attributed the vote's failure to "misconceptions" that enrollment in the district isn't growing, and the city's lack of access to state aid.

Hoboken is one of the most densely populated cities in the country, with more than 60,000 people counted in the 2020 Census — a 21% increase from 2010. The city that is a short train ride from the World Trade Center is a hub of young professionals, many of whom have begun families there.

New Jerseyans pay the highest property taxes in the nation — an average $9,284 in 2021. Hoboken's average bill — a combination of county, school and municipal levies — was $8,402. School officials had wanted to increase residents' property taxes by about 6%.

Daniel Solender, head of municipals at Lord Abbett & Co. in neighboring Jersey City, pointed to the portion of Hoboken's young, childless population that was reluctant to shoulder the cost of the new school.

"The rejection was mainly due to how ambitious the plan was and how costly it was," he said. "It might have had a better chance if it was a less fancy plan."

Bloomberg

By Nic Querolo and Danielle Moran

January 26, 2022

Puerto Rico's Bankruptcy Is Ending. What Comes Next?

The biggest bankruptcy ever in the municipal debt market is on a path to resolution, now that a U.S. judge has approved a restructuring plan for Puerto Rico. Still, there are plenty more challenges ahead for investors, the island's still-bankrupt electric utility and its beleaguered residents. Even with a sharp reduction in debt payments, the key issue for Puerto Rico is whether it can turn around an economy that's been shrinking for years amid a steady loss of population.

1. How big was Puerto Rico's bankruptcy?

The debt restructuring — an agreement between Puerto Rico’s government, bondholders, insurance companies, vendors and labor groups — will erase $33 billion of debt and other obligations, including the cutting of $22 billion of bonds to $7.4 billion. It surpasses Detroit’s $18 billion bankruptcy in 2014, previously the largest. When Puerto Rico’s governor announced in 2015 that the commonwealth, a Caribbean island that is a U.S. territory, could not repay what it owed, the debt of the government and the agencies and authorities it controlled totaled $74 billion.

2. What did the judge decide?
U.S. District Court Judge Laura Taylor Swain agreed to the restructuring plan, including the issuance of new bonds that will reduce Puerto Rico’s outstanding debt. She also rejected assertions by some creditors that a federal law, called Promesa, that was passed to allow Puerto Rico to restructure its obligations through U.S. court oversight violates the Constitution. The agreement she approved also avoids cuts to pension benefits for islanders and establishes a new pension reserve trust; Puerto Rico’s depleted retirement fund owes an estimated $55 billion to current and future retirees.

3. How will the debt restructuring work?
Puerto Rico’s government and the financial oversight board created by Promesa to manage its bankruptcy process plan to execute a debt exchange on or before March 15. At that time anyone holding a Puerto Rico general obligation bond or commonwealth-guaranteed debt will swap their securities for new restructured general obligations. This will facilitate the reduction in principal to lower Puerto Rico’s debt load.

4. What are bondholders getting?
The new bonds will give investors as little as 67.7 cents on the dollar to as much as 80.3 cents on their current holdings, depending on the type of bond they bought and when it was sold. They will also receive a $7 billion cash payment and a so-called contingent value instrument that pays out if Puerto Rico’s sales-tax collections exceed projections.

5. How does the restructuring help Puerto Rico?
Once the bonds are exchanged, Puerto Rico will pay no more than $1.15 billion in principal and interest annually on its general obligation bonds and sales-tax debt, down from as much as $3.9 billion. That means for every dollar of taxes and fees that the government collects, just 7.2 cents will go to creditors, leaving the remaining revenue to serve the 3.3 million people of Puerto Rico.

6. Are there any obstacles to the debt restructuring?
The steps necessary for the bond exchange are mostly administrative. The oversight board and the government need to certify an updated multi-year fiscal plan and amend the island’s current budget to incorporate the new payments to bondholders.

7. What else needs to be done?
Puerto Rico has authorities and agencies that are also in bankruptcy or working through debt restructurings outside of court. Its government-owned Electric Power Authority, which provides most of the electricity on the island, is still in bankruptcy and is seeking to cut its $9 billion in debt by about a third. The island’s Highways and Transportation Authority is also working to reach a resolution on the $6 billion it owes in bankruptcy.

8. How did this all happen?
Puerto Rico and its authorities and government agencies racked up the $74 billion of debt through years of borrowing to cover operating expenses as its economy shrunk and its population fell by 12% between 2010 and 2020. Its debt was widely held: mutual funds throughout the U.S. bought it for its tax-exempt benefits. Once the commonwealth could no longer borrow through the capital markets at

affordable rates, it defaulted on its general obligation bonds in 2016 and the oversight board sought bankruptcy in May 2017.

9. What's the plan for recovery?
Puerto Rico officials anticipate investment on the island will grow once the end of bankruptcy removes longstanding uncertainty over the island's finances and the government regains the ability to increase spending on health and education. Federal funds are also expected to boost the island's economy: Puerto Rico is set to receive more than $40 billion of federal recovery funds in the coming years, including $1.9 billion included in the Infrastructure Investment and Jobs Act passed in 2021.

10. What's been the reaction among residents?
The federally-appointed oversight board has been very unpopular among residents, who have viewed it as taking away the island's autonomy and ability to govern itself. Many Puerto Ricans also question the settlement, asking why they should repay hedge funds, distressed-debt buyers and other investors when the island has suffered from devastating hurricanes, earthquakes and chronic power outages. Nearly 44% of its residents live in poverty. Another source of discontent is the more than $1 billion in bankruptcy fees the island owes or has paid to lawyers, financial consultants and outside experts.

Bloomberg QuickTake

By Michelle Kaske

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Puerto Rico's Recovery Depends on Getting Back Its Government.

The island's exit from bankruptcy won't deliver it from hard economic decisions — the kind that are best made by elected officials whom voters can hold to account.

Last week, Judge Laura Taylor Swain of the Southern District Court of New York certified the plan that will sharply reduce Puerto Rico's tax-supported debt and allow the island to emerge from bankruptcy.

Thus ends a five-year chapter in the largest and most complex municipal restructuring in U.S. history, a saga that unfolded as the commonwealth coped with devastating hurricanes and earthquakes, a U.S. president who held up $20 billion in aid, popular protests that toppled the island's government and, finally, the onslaught of Covid-19.

The plan that Judge Swain approved is technically sound. But strategic investment and hardheaded realism will be needed to avoid long-term deficits and avert a second default. More fundamentally, to make the difficult decisions that lie ahead, Congress should amend the Puerto Rico Oversight, Management and Economic Stability Act ("Promesa"), the law passed to save the island, and return power to the people of Puerto Rico and their elected officials.

From 2015 to 2017, I led a team at the U.S. Treasury that worked with Congress to design and pass Promesa. As Puerto Rico veered toward default in 2016, it had depleted its $55 billion pension plan and amassed $70 billion in debt, owed to everyone from on-island retirees to hedge funds that had bought claims for pennies on the dollar. If Congress had not stepped in, a cascading series of defaults threatened to turn a fiscal crisis into a humanitarian one.

What makes the restructuring plan approved by Judge Swain, which covers $55 billion in public pension plan claims and $34 billion in debt, technically sound?

First and foremost, by petitioning the courts five years ago, the island was able to suspend debt payments, deferring nearly $20 billion that would otherwise have been disgorged to creditors. Promesa staved off those claims, allowing the government to function and invest in the face of natural disasters.

Second, the debt will be simplified and significantly reduced. Prior to the restructuring, the commonwealth would have had to pay between $2.5 billion and $3.9 billion in annual debt service. This will be reduced to between $1.15 and $1.7 billion, with the higher amount paid only if the island's sales and rum tax collections exceed current expectations. Debt payments will consume 7% of the budget, versus roughly a quarter before. Including interest savings, the amount of debt forgiveness, or haircut, will total over 50%, ranging from a third for the most senior creditors to over 90% for the most junior — and if taxes overperform, senior creditors could eventually recover close to their entire claim.

Third, public pensions, which prior governments depleted to an unheard-of zero level of funding against $55 billion of liabilities, will remain intact. Because pensions support nearly 320,000 residents in Puerto Rico, Promesa included language that they "must be adequately funded," a provision not found in the municipal bankruptcy code, which treats these important stakeholders as relatively junior, unsecured claims. Although teachers and judges will have their pensions frozen at today's rates, they will have access to Social Security benefits for the first time.

These achievements are real, but they do not ensure that the island's debt is truly sustainable over time. The Oversight Board created by Promesa to renegotiate the island's debts and oversee its finances will soon publish the 2022 Fiscal Plan. Past plans have shown deficits starting in 2036, while relying unrealistically on structural reforms, including changes to labor law beyond the board's authority, as a way to spur economic growth. Even though the debt has been cut, it is the only fixed component of the budget, so the people of Puerto Rico bear the risk of underperformance. The critical investments that Puerto Rico can now make must be guided by a long-term strategic vision for the economy.

The U.S. Congress must also address the uncertainty over future Medicaid contributions to Puerto Rico, a provision that was included in the stalled Build Back Better bill. An interpretation by the Biden administration's Center for Medicare and Medicaid Services (CMS) increases the statutory federal share of Medicaid for the island to nearly $2.9 billion from $400 million under the Trump administration. But without legislation, re-interpretation by a future CMS could blow a hole in Puerto Rico's budget larger than the pension payments.

As important, the federal funds already allocated to rebuild the island's infrastructure, electricity grid and housing need to flow more quickly. These investments will underpin longer-run growth. As of this writing, over $40 billion have been obligated but not outlaid in Puerto Rico, including more than $18 billion in Community Development Block Grants for housing construction.

More fundamentally, it is time to reassess the governance of Puerto Rico's fiscal planning.

In the spring of 2016, the late Governor Rafael Hernandez Colon visited me at the U.S. Treasury, accompanied by former Governor Anibal Acevedo Vila, to voice his opposition to Promesa. To me, the technical merits of the law were clear: Without it, there was no path to avert the cascading series of defaults and draconian cuts to essential government services that would ensue.

Yet as Hernandez Colon emphasized, Promesa's technical merits weren't what really mattered to the people of Puerto Rico. He spoke primarily of its "oversight" provisions creating a federally appointed board to negotiate the restructuring of the debt and oversee the island's finances. He saw this as an affront to his life's work of preserving the commonwealth, whereby Puerto Rico, by its own constitution, is "a state that is free of superior authority in the management of its own local affairs but which is linked to the United States."

Promesa essentially overrode this clause. In order to withstand inevitable challenges from creditors in federal courts, the law relies on Article 4 of the U.S. Constitution, which defines the island as a territory or "possession" and, while the full scope of its jurisdiction remains an unsettled matter, confers plenary authority over its affairs to the U.S. Congress. Hernandez Colon had come to Washington to state his opposition as a matter of principle. "It is the kind of thing over which wars are fought," he said starkly. The meeting left a lasting impression and still requires an adequate response.

Promesa became law in a divided government, with a Democratic administration that sought debt restructuring for Puerto Rico and a Republican-controlled Congress more focused on controlling the island's finances. A bipartisan compromise paired a powerful restructuring authority with an oversight board modeled on those created for New York and Detroit, giving it the ability to approve or, if necessary, revise the Puerto Rico legislature's budgets.

As predicted, creditors sought to have Promesa overturned. But in 2020, the Supreme Court held unanimously that the oversight board was legally constituted. In a concurring opinion, Justice Sonia Sotomayor nonetheless echoed Hernandez Colon's private remarks, lamenting the "freewheeling exercise of [federal] control" over the government of Puerto Rico.

To be free of the Oversight Board, Puerto Rico must have four consecutive years of balanced budgets according to GASB accounting rules and access to traditional municipal markets. Given its chronic delay in producing audited financial statements, that will take years to achieve.

Some may argue that the board is necessary to encourage much-awaited fiscal reform and transparency. But there has been little progress. And for all its good work on the commonwealth plan, the board's limited political legitimacy on the island has inhibited its ability to play the constructive, ongoing role for which it was designed.

The Oversight Board of New York, the Municipal Assistance Corporation, was founded in 1975 (when the city nearly went bankrupt) and didn't vote itself out of existence until 2008. Puerto Rico cannot afford to wait that long for its financial governance to be returned to duly elected officials.

True, Puerto Rico can now attract investment without the cloud of an ongoing bankruptcy proceeding, and the federal government can appropriate funds without fear that the money will flow to creditors, rather than the people of Puerto Rico. But current Governor Pedro Pierluisi is also right that "we still have a lot of work ahead of us."

The right response to Governor Hernandez Colon will be to allow the government of Puerto Rico to carry out that work, fully embracing the fiscal reforms, transparency initiatives and balanced budgets that will be necessary to avoid a second crisis. Congress should amend Promesa to sunset the board as soon as practical following confirmation of the final plan of adjustment.

No meaningful, lasting recovery is possible without the restoration of self-governance to the people of Puerto Rico.

Bloomberg Politics

By Antonio Weiss

January 26, 2022

[New Hampshire Broadband Providers Push Senate Panel to Reject Expansion of Municipal Bonding Ability.]

Committee OKs use of funds to tackle 'cellular deserts'

It was pretty much of a no-brainer on Wednesday for the NH Senate Election Law and Municipal Affairs Committee to pass a bill that would allow broadband funds to upgrade cell service in under-served areas of the state. But for let municipalities issue bonds to improve broadband service? Not so much.

Senate Bill395 that would address the problem of "cellular deserts," as sponsor Sen. Jay Kahn, D-Keene, called them when testifying for the bill on Wednesday.

"It's not just about convenience," he said, citing one police chief complaining he couldn't call back disconnected 911 calls because of poor service. "That's not acceptable. That's not living up to any kind of standard."

Under Kahn's bill, the money would be used to lift the standard of "adequate cell phone service," meaning it "meets federal standards for speed, latency, reliability, and consistency in quality of service." There was additional language in the bill for the money to be used to improve service to meet "evolving connectivity needs," but Kahn agreed to omit it to ensure the bill's passage.

Rep. Andrew Maneval, D-Harrisville, comes from that town where the police chief sometimes couldn't return emergency calls, but he didn't so much emphasize public safety.

"The quality of cell service is part of attracting young families and small business," he said.

The committee quickly and unanimously recommended passage of the bill, in stark contrast to an earlier hearing on SB 247, which would allow counties or municipalities to issue bonds to finance broadband financing.

Unserved areas are already allowed to do this this, and some have done so with great success, said Sen. Denise Ricciardi, R-Bedford, but she wanted to enable all municipalities to do so, particularly the under-served.

But she ran into the opposition from the broadband providers, who fear government-subsidized competition, a concern echoed by the committee's chair, Sen. James Gray, R-Rochester.

"What is wrong with competition?" shot back Ricciardi.

Ricciardi was backed up by the NH Municipal Association, the Southwest Region Planning Commission and Bill Duschatko, a Bedford town councilor. Bedford has broadband that meets minimum federal standards, but those standards are not enough these days, he said.

"We are very dissatisfied with the service, the lack of speed and unreliability," Duschatko said.

Those standards “don’t consider the needs of small business,” added Henry Underwood, a planner with the Southwest Region Planning Commission, who said that only 18 out of 34 communities in that region are eligible to issue bonds, while the remainder left are “left behind.”

All of the supporters said the bill could help even communities without minimal service, because proving that they don’t need that service requires mapping, which require access to information from broadband providers.

The providers, however, pointed to a bill passed last year that would improve such communications and considered the matter resolved. More important, they did not take into consideration the needs of its business model, said Chris Rand, vice president of Granite State Communications, which has invested millions to build up its network. The bill “undermines basic market incentives. It would allow towns to bypass the providers or pay someone to do just that.”

“This bill is entirely about government being a competitor to the private sector or choosing a provider who gets the benefit of a public subsidy. It’s the government putting its thumb on the competition,” said Christopher Hodgdon, a lobbyist representing Comcast.

Hodgdon went on to outline all the company was doing to improve service, not only by upgrading bandwidth and speed fourfold, but also by installing Wi-Fi in people’s home that would match those speeds, arguing that often people’s complaints about reliability and speed come from their Wi-Fi network.

New Hampshire Business Review

by Bob Sanders

January 27, 2022

[Fitch: Texas and Arizona Recover Pandemic Employment Losses]

Fitch Ratings-New York-21 January 2022: As of November 2021, Texas and Arizona became only the third and fourth states to achieve pre-pandemic employment levels, according to Fitch Ratings.

“November saw solid state employment growth with the state median jobs recovery hitting 77 percent, a 2-percentage-points increase from the prior month,” said Olu Sonola, Head of U.S. Regional Economics. “But these recovery trends, boosted by in-person education and greater return to in-person work, may be threatened by the still uncertain economic implications of the omicron variant.”

California’s recovery rate increased to 70 percent, a 2-percentage-points (pps) increase from the prior month. New York’s recovery rate increased to 60 percent, a 1pps increase from the prior month. As of November 2021, 48 states have recovered over 50 percent of the jobs lost since the start of the pandemic. Utah and Idaho also hit pre-pandemic employment levels in February 2021 and December 2020, respectively.

The median Fitch-adjusted unemployment rate, which reclassifies people who have left the labor force as unemployed, marginally declined to 5.8 percent from 5.9 percent in October; however, the rate remains above the 4.2 percent median state official unemployment rate.

Notable increases in the Fitch-adjusted unemployment rate between June 2021 and November 2021 include New Hampshire at 6.0 percent from 5.2 percent, New York at 8.9 percent from 8.5 percent, and Nevada at 9.8 percent from 9.5 percent.

Leisure and hospitality, education and health services, and local government combined have been responsible for 50 percent or more of job losses nationally since February 2020.

For more information, a special report titled "U.S. States Labor Markets Tracker" is available at www.fitchratings.com.

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Puerto Rico Released From Bankruptcy as Economic Problems Persist.

A federal judge approved the largest-ever restructuring of U.S. municipal bonds, easing the island's re-entry to capital markets

Puerto Rico received court approval to leave bankruptcy through the largest restructuring of U.S. municipal debt ever, ending years of conflict with creditors as the U.S. territory confronts other stubborn economic problems.

Tuesday's court ruling approved a write-down of $30.5 billion in public debts built up during an economic decline marked by high joblessness, outward migration and unsustainable borrowing that tipped Puerto Rico into bankruptcy in 2017. The restructuring plan calms tension between Puerto Rico and its Wall Street creditors dating to its debt default, the largest ever on bonds backed by the full faith and credit of a U.S. municipality.

In approving the bankruptcy plan, Judge Laura Taylor Swain overruled objections to the financial restructuring and said it enjoys "broad but not universal support" among affected creditors and will preserve Puerto Rico as a "viable public entity."

The restructuring marks a win for the oversight board steering Puerto Rico's finances, an unelected body that shares power with elected officials and has faced opposition from many of the island's three million residents, who have referred to it as the "junta." Judge Swain's ruling doesn't remove the board, which under federal law can only disband after four consecutive years of balanced budgets.

But slashing debt does free up cash for spending that would otherwise go to bondholders. Puerto Rico's debt-servicing costs will fall to roughly $666 million for the next 10 years, from $2.1 billion before its default. Creditors will receive $7.4 billion in new debt and $7 billion in cash, as well as tradable securities known as contingent value instruments that pay out if the economy improves.

Big investors including BlackRock Financial Management Inc. and Silver Point Capital LP backed the negotiated plan, which has pushed the value of some core government bonds to four times what they were worth after Hurricane Maria hit Puerto Rico in 2017. The benchmark general obligation bond has rallied to more than 90 cents on the dollar, compared with lows in 2017 of 21 cents on the dollar.

Puerto Rico joins Detroit; Jefferson County, Ala.; Orange County, Calif.; and the California cities of Stockton, San Bernardino and Vallejo as municipal borrowers that have shed debts through a court-supervised bankruptcy. The end of the bankruptcy case will slow the professional fees for lawyers, bankers and consultants who advised Puerto Rico on its restructuring and have racked up roughly $1 billion in bills so far, at taxpayers' expense.

The territory entered bankruptcy with $74 billion in bond debt and a $55 billion gap between the pension benefits promised to employees and retirees and the funding set aside to pay for them. Public agencies were racked with cronyism and failed for years to draw up accurate budgets or account for expenses, according to a 2018 investigation commissioned by the board.

Sprawling bureaucracy and a high cost of doing business discouraged investment, especially after the expiration of some corporate tax breaks in 2006 pushed some pharmaceutical and other manufacturers to depart. To make up for a shrinking tax base, officials borrowed to paper over deficits and skimped on pension contributions, losing Puerto Rico its investment-grade credit rating in 2014.

Many residents of Puerto Rico, political leaders, and some investors have called for an independent audit of how the huge debt was built up and the prosecution of individuals who might have misspent public funds, according to Judge Swain's decision.

She said her ruling "does not foreclose further investigation, whether through regulatory, law enforcement, or civil litigation channels, into the origins of Puerto Rico's debt crisis."

Despite the board's sweeping powers over fiscal matters, many of its proposed overhauls of business rules and economic policy in Puerto Rico have languished. Lawmakers resisted the board's proposed cuts to pension benefits and quashed attempts to relax labor laws and tighten welfare requirements, reflecting popular anxiety that cutbacks to the safety net would push more into poverty.

The board's executive director, Natalie Jaresko, disputed on Tuesday that it had implemented harsh austerity measures, as its critics allege.

"There were no layoffs. There was not a single major agency of any size shut down. There were reductions in budget, but it wasn't austerity," said Ms. Jaresko. She said the plan of adjustment protects pensions and ensures that lawmakers don't go back to making promises that aren't paid for.

"This period of financial crisis is coming to an end," she said. "The uncertainty that every person, every business in Puerto Rico felt is coming to an end."

Many of the fiscal problems that drove Puerto Rico's decline haven't been fixed. Government audits remain years overdue. The economy relies heavily on tax breaks to spur development, issuing $21.4 billion in incentives to businesses and individuals in 2018, the most recent data available. The labor participation rate in Puerto Rico was 43.4% in November, well below the lowest rate among U.S. states, West Virginia's 55.1%.

Electricity service is dogged by outages, including after the business of delivering power was privatized last year at the board's urging. In November, a local court issued an arrest warrant for the chief executive whose company now runs the power grid after he allegedly failed to turn over information to lawmakers. The warrant was quickly rescinded. Power service remains costly and prone to outages after years of inadequate maintenance.

Jose Villamil, CEO of economic consulting firm Estudios Tecnicos, said there has been "relatively little private-sector investment in Puerto Rico in the past six to seven years," except for real estate. He doesn't expect that to change soon.

Puerto Rico has a big cash balance because the government hasn't been making debt payments during its bankruptcy, but could run up deficits once debt servicing resumes, Mr. Villamil said. The board also predicts that government deficits will reappear by 2035 unless lawmakers adopt labor, business and tax overhauls that so far have failed to gain traction.

As the restructuring plan gained momentum, the board backed off demands to cut pensions for retired teachers, judges and bureaucrats, bowing to Gov. Pedro Pierluisi and legislative leaders whose help it needed to close the debt deal with bondholders.

That concession left accrued retirement benefits fully intact, a potential source of fiscal stress in coming years. The pension funds at issue cover 167,000 retired workers, or 5% of the island's population, making them the largest creditor group in the bankruptcy.

At the same time, teachers' and judges' unions opposed the restructuring plan because it stops current employees from accumulating any more defined pension benefits while switching them to less generous 401(k)-style programs. Judge Swain agreed with the board that without the benefit freeze for active workers, the restructuring plan might not be feasible.

Puerto Rico in its journey through bankruptcy was confronted with catastrophic hurricanes in 2017, street protests that caused a governor's resignation and succession crisis in 2018, coastal earthquakes in 2019 and the arrival of Covid-19 in 2020. Its relationship with Washington, strained for years, deteriorated under former President Donald Trump, who criticized elected leaders on the island and restricted its access to federal disaster aid.

The territory forged a path out of bankruptcy despite the pandemic, buoyed by an influx of federal assistance and a broad rally in municipal bonds that eased investor concerns about the territory's return to capital markets after a long exile. The municipal-bond market has largely shrugged off Puerto Rico's troubles, viewing the default as an isolated incident and not an indicator of broader weakness among state and local governments.

Ignacio Alvarez, CEO of San Juan-based bank operator Popular Inc., said Tuesday that Puerto Rico has bounced back better than expected from the pandemic but still faces an uncertain economic future. The expected influx in federal funds won't last forever, he said.

The board "has tried to drive a fine line between those two extremes, where some people would say we should try to wipe out the debt, and the bondholders saying we should get 100%," he said.

The board hopes the aftermath of the restructuring will include “material new investments that turbocharge the economy” following a historic decline in population, board lawyer Martin Bienenstock said in court in November. By 2026, the island’s population is projected to fall to 2.76 million, 10% less than in 2019, Mr. Bienenstock also said in court hearings over the restructuring plan. The population was close to 3.7 million in 2010, according to census data.

The board has worked to put safeguards in place to prevent Puerto Rico from again taking on too much debt, such as only allowing for long-term bond sales for capital investments, rather than for financing deficits, court filings show.

Board chairman David Skeel said Tuesday that critics of the adjustment plan are incorrect in arguing that it leaves Puerto Rico to face an unsustainable debt obligation. Under the plan, Puerto Rico will pay roughly 7.2 cents of every dollar collected in taxes and fees to bondholders, compared with 25 cents before the bankruptcy.

“This is absolutely sustainable,” Mr. Skeel said. “It’s not going to lead to more cuts.”

The Wall Street Journal

By Andrew Scurria and Soma Biswas

Jan. 18, 2022

‘In a Muni Bankruptcy, the Same Entity Emerges’: Puerto Rico Exits Bankruptcy with Questions Remaining

Is statehood the answer?

Puerto Rico on Tuesday received court approval to exit its municipal bankruptcy, restructuring over $30 billion of debt, but leaving plenty of questions about the sustainability of its finances.

The island entered bankruptcy in 2017 after years of excessive borrowing, abetted by Wall Street. Its municipal bonds were exempt from federal, state and local taxes in any U.S. jurisdiction, making them attractive to fund managers in a market long starved for supply. Puerto Rico’s financial position was worsened by a weak economy, out-migration to the mainland, and its location in the Caribbean, making it vulnerable to costly storms like Hurricane Maria.

Critics of the approved plan of adjustment say it leaves in place conditions that aren’t sustainable, such as generous retirement benefits, even as it slashes the island’s overall debt load. But for the municipal bond market HYD, -0.24%, especially those hunting yield, the big question is whether Puerto Rico will return to the position it held for years before Gov. Alejandro García Padilla declared it could not pay its debts.

Continue reading.

MarketWatch

By Andrea Riquier

Jan. 20, 2022

Puerto Rico Bankruptcy is Ending. Next Step: Grow Its Economy

- **Governor sees hope in reconstruction funds, manufacturing base**
- **Federal oversight board warns deficits could reappear by 2035**

After more than four years, Puerto Rico's record municipal bankruptcy is coming to an end. For the U.S. commonwealth, the timing seems auspicious.

The island, which has been in an economic slump for a decade and has been battered by hurricanes, earthquakes and political rifts, will have to grow its more than $100 billion economy or risk again running the kinds of deficits that pushed it to financial ruin.

Yet it's coming out of bankruptcy just as federal reconstruction funds, pandemic relief and burgeoning bioscience and tourism industries are converging to give local officials confidence they can produce stronger balance sheets going forward.

"In terms of the fiscal challenges that Puerto Rico will be facing, we will have no problem whatsoever in maintaining the fiscal house in order," Governor Pedro Pierluisi said in a phone interview.

The federal judge overseeing the bankruptcy case on Tuesday approved a debt restructuring plan that's seen as the last major hurdle in order to exit court protection. It shrinks $22 billion of bonds down to $7.4 billion and establishes a reserve trust to fund the island's broke pension system.

While the bankruptcy process cut Puerto Rico's annual bond payments down to $1.15 billion, it's not a panacea that resolves underlying issues, including a shrinking population and weak infrastructure. And the government still needs to come up with $3.4 billion a year to cover all its debt and pension benefits costs.

"It is not a perfect debt restructuring plan, but it will considerably reduce the financial burden on the residents of the island and the local government," Representative Raul Grijalva, the chairman of the U.S. House Natural Resources Committee and an Arizona Democrat, said in a statement. "Moving forward, the focus must be on rebuilding the Puerto Rican economy so that even its most vulnerable residents are able to thrive."

Pierluisi said the debt deal, along with more than $40 billion in federal reconstruction funds set to flow into the economy in coming years, have set the stage for transformation.

Manufacturing, which represents about 48% of the island's gross domestic product, has been running strong amid a pandemic that shined a spotlight on the island's bioscience sector. Puerto Rico is home to almost 50 pharmaceutical factories, including for drugmakers such as Merck & Co., Pfizer Inc. and Eli Lilly & Co.

In addition, tourism saw a record-breaking year in 2021 as mainlanders who were locked out of international markets due to Covid-19 restrictions hopped on domestic flights to the Caribbean destination. And the island's generous tax breaks are attracting a new wave of service-export companies rising amid the work-from-anywhere movement.

"Those three sectors – manufacturing, tourism and professional services – should be driving a lot of our future growth," Pierluisi said.

Population Decline

Still, the island faces monumental hurdles.

Puerto Rico lost 12% of its population from 2010 to 2020 — more than any other U.S. jurisdiction — as years of economic decline and 2017's Hurricane Maria chased away talent.

Growing an economy with a shrinking population "is very difficult," said Sergio Marxuach, the policy director at Center for a New Economy, a Puerto Rico-based think tank.

"That's the real problem for Puerto Rico," he said. "We can always get people to move back if things get better, but increasing the number of live births is more complicated."

There are also questions about the island's reliance on federal money. Since 2012, the economy has only grown during two years — 2019 and 2021 — and in both cases it was directly tied to an influx of federal funds.

Still, local officials are betting more federal funds can improve infrastructure enough to stimulate private industries.

If the government can fulfill its pledge to improve the island's battered electrical grid and rebuild roads "this could be an ideal place to do business," said Yandia Perez, the executive director of the Puerto Rico Manufacturers Association. The island's strategic location and unique status — a Caribbean outpost under U.S. laws — makes it attractive to global firms trying to break into the Latin American and U.S. markets.

"Coming out of bankruptcy also removes a huge stigma for us, which was making it a challenge to attract industry and investment to Puerto Rico," she said.

Looming Tax Threat

Much of Puerto Rico's past success has been tied to generous tax breaks it offers global companies. But a proposal by the G7 nations and supported by Washington would impose a global minimum tax of 15% — striking at the heart of Puerto Rico's appeal.

In addition, U.S. Internal Revenue Service rules that allow companies to deduct a 4% excise tax from their federal contribution sunsets at the end of this year.

"We can still compete based on our productivity and the skills of our labor force in the manufacturing field as long as we are not discriminated against," Pierluisi said. "To the extent that the conditions we are getting are comparable to the ones that foreign countries will be getting, I'm not concerned about it."

As for the excise tax, the administration is in the process of overhauling its tax code to make up for the shortfall.

Puerto Rico's Secretary of Economic Development and Commerce Manuel Cidre said the island can't rely on its existing manufacturing base — or government funding — for future growth. Puerto Rico needs to lure more U.S. midsize companies, boost local agriculture, reinforce its bioscience sector and become more attractive to entrepreneurs, he said.

"Everyone needs to play their part in this transformation," Cidre said, "because the government can't do this alone."

Bloomberg Markets

ByJim Wyss

January 20, 2022

— With assistance by Michelle Kaske

Puerto Rico's Looming Bankruptcy Exit Set to Soothe Island's Turbulent Muni Debt.

• G.O. bond trades at 90 cents after falling to 21 cents in 2017
• Judge may rule as soon as this month on Puerto Rico debt plan

Puerto Rico's anticipated exit from bankruptcy is pushing up prices on one of the most actively-traded securities in the $4 trillion municipal-bond market — a commonwealth 8% coupon general obligation bond — with the momentum poised to continue after a debt restructuring.

The commonwealth is inching closer to resolving its more than four-year bankruptcy, which will slash $22 billion of bonds down to $7.4 billion through a debt exchange and enable the commonwealth to begin repaying bondholders again as soon as this year.

While longtime investors who bought Puerto Rico securities at full value will experience losses on their holdings, other buyers who scooped up the debt at distressed levels are poised to see gains. Post-restructuring, investors would benefit from the island's improved balance sheet.

Continue reading.

Bloomberg Markets

ByMichelle Kaske

January 18, 2022, 8:07 AM PST

Puerto Rico Approved to Exit Bankruptcy, Ending Record Saga.

• Court approval allows Puerto Rico to begin exiting bankruptcy
• Plan reduces $22 billion of municipal bonds to $7.4 billion

The judge overseeing Puerto Rico's bankruptcy approved its debt-cutting plan, a decision that leaves the island poised to exit bankruptcy after hurricanes, political turmoil and the pandemic prolonged the more than four-year process.

U.S. District Court Judge Laura Taylor Swain released the ruling Tuesday, saying "the provisions of the plan constitute a good faith, reasonable, fair, and equitable compromise and settlement of all claims and controversies resolved pursuant to the plan."

Puerto Rico's bankruptcy, the largest in the $4 trillion municipal-bond market, will reduce $33 billion of debt, including $22 billion of bonds. The restructuring plan is the result of years of negotiations between the commonwealth and its financial oversight board, hedge funds, bond insurers, mutual funds and labor groups. The lengthy process has ballooned the cost of Puerto Rico's bankruptcy to more than $1 billion.

Exiting bankruptcy will allow Puerto Rico to move beyond default, begin repaying bondholders and creditors, focus on growing its economy and rehabilitate a weak electrical grid that suffers from chronic outages.

"The bankruptcy of the commonwealth has been like a dark cloud on top of Puerto Rico for too long," Governor Pedro Pierluisi said in a telephone interview ahead of the approval. "It is a new day for the government and the economy of Puerto Rico."

Prices on some commonwealth securities already increased this month as investors were anticipating Swain's ruling. A Puerto Rico general obligation with an 8% coupon and maturing in 2035 traded Tuesday at an average price of 90.3 cents on the dollar, up from 87.5 cents at the start of the year, according to data compiled by Bloomberg.

Debt Forgiveness

The island's financial oversight board anticipates swapping out the legacy debt with new restructured bonds by March 15, as Puerto Rico and the board must take a series of administrative steps to implement the reorganization plan.

"We started out with what seemed like unbridgeable differences of views and projections about what the future was going to look like," David Skeel, chairman of the oversight board, told reporters Tuesday following Swain's ruling about the negotiations with creditors. "We were able to bridge those differences of opinion through some remarkable innovations in this plan of adjustment."

The debt plan will forgive $3 billion of pension bonds and slash $18.8 billion of general-obligation bonds and commonwealth-backed securities to $7.4 billion. Along with new bonds, investors will receive a $7 billion upfront cash payment and a security, called a contingent value instrument, that pays if sales-tax revenue surpasses projections.

Those cuts mean bondholders will receive as little as 67.7 cents on the dollar to as much as 80.3 cents, depending on the type of security they hold and when it was first sold.

Post-restructuring, Puerto Rico will only have to pay an average of $666 million annually for debt service on new general obligation bonds for the first 10 years, down from an average $1.6 billion.

The workout also establishes a reserve trust to begin rebuilding the commonwealth's broke pension system, which owes current and future public employees an estimated $55 billion.

Still, Puerto Rico's fixed costs will remain high, even post-bankruptcy. The commonwealth spends about $2.3 billion each year to cover retirement benefits for public workers because its pension system is depleted. Medicaid costs may increase if the federal government fails to boost its Medicaid allocations to the island.

Puerto Rico may struggle again in future years to pay debt service. The commonwealth is estimated to face deficits in fiscal 2036 with a $119 million shortfall, even if island lawmakers implement changes such as making it easier to do business there and installing programs to expand workforce participation, according to the commonwealth's current multi-year fiscal plan.

Puerto Rico has been in bankruptcy since May 2017, after years of borrowing to cover budget deficits, population decline and economic contraction.

Bloomberg Markets

By Michelle Kaske

January 18, 2022

— With assistance by Jim Wyss, and Steven Church

Puerto Rico's Bankruptcy Exit Isn't the Finish Line.

The U.S. commonwealth is still saddled with heavy debts relative to its economy.

When I first saw the news on Tuesday that Puerto Rico's bankruptcy judge had approved its debt-restructuring plan, allowing the commonwealth to begin to exit this painful, almost five-year chapter of its history, I had to stop and think. After all, the island's drawn-out struggle with its creditors has been in the background during most of my professional career, dating back to when I helped chronicle its financial collapse as part of Bloomberg News's municipal-bond team in the mid-2010s.

I want to say what Governor Pedro Pierluisi told my colleague Michelle Kaske ahead of the approval. "The bankruptcy of the commonwealth has been like a dark cloud on top of Puerto Rico for too long," he said. "It is a new day for the government and the economy of Puerto Rico."

Of course, exiting a bankruptcy that began in May 2017 and that was prolonged by hurricanes and a global pandemic should be framed as reason for optimism for all Puerto Ricans. However, it's just as important to have a clear understanding that this restructuring plan, even if it lops off tens of billions of dollars of debt, is not a cure-all for what snared the commonwealth in an economic tailspin in the first place. A lot of hard work still remains to put the island on a sustainable fiscal path.

For one thing, it sure looks as if Puerto Rico, after more than $1 billion in costs, still couldn't do much through bankruptcy to impair the holders of its general obligation bonds and commonwealth-backed securities. While those bonds will total only $7.4 billion now instead of $18.8 billion, investors will also get about $7 billion in cash upfront and billions of dollars worth of "contingent" debt that will pay if sales-tax collections exceed projections. It always seemed impossible that bondholders would be made whole — but this agreement isn't all that far off. The legacy debt should be swapped out for the new obligations by March 15.

Puerto Rico will still be on the hook for an average of $666 million a year over the next decade on debt service for the new general obligation bonds alone. For some context, the commonwealth's general fund collections totaled $11.7 billion in the 2021 fiscal year, bolstered by federal disaster funds and pandemic relief aid. Debt service will remain a large slice of the government's expenses.

Meanwhile, the viability of the commonwealth's pension system remains tenuous. The restructuring plan lays out specifics for creating a reserve trust. Still, it owes some $55 billion to current and future retirees because any accrued benefits weren't impaired by the approved restructuring plan. Puerto Rico has been spending about $2.3 billion each year to cover such retirement payouts because its assets are depleted. In an acknowledgment that rebuilding a defined-benefit fund from scratch would be nearly impossible, current workers will move to a 401(k)-type plan.

Perhaps most strikingly, the commonwealth's own multiyear fiscal plan projects budget deficits will flare up again in fiscal 2036, even after factoring in reforms to promote business development and expand workforce participation. That's not exactly a clean bill of health.

Detroit, the largest U.S. city to ever file for bankruptcy, is a useful case study several years removed from its 2014 exit from court protection. Its general obligation bonds are rated BB- by S&P Global Ratings and Ba3 by Moody's Investors Service, both three steps below investment grade. The rating "balances the city's robust reserves and strong financial planning practices with its weak property tax base, significant debt and pension leverage, and substantial resource demands, including the need for further capital investments," Moody's analysts wrote last year. The problems that plagued the Motor City didn't disappear with some of its debt.

Puerto Rico, too, looks poised to have strong financial planning for years to come because its oversight board isn't going anywhere. According to the Puerto Rico Oversight, Management, and Economic Stability Act, the board must remain in place until the island achieves balanced budgets for four consecutive years and can access the bond market at reasonable interest rates. That could take a while — after Detroit's bankruptcy, it needed the state to implement additional safeguards to win over investors. Puerto Rico doesn't have that option.

To be clear, I hope that Puerto Rico will stage a comeback and become an attractive place to work and live. But it's going to take more than just a smattering of hedge fund tax dodgers or a community of crypto advocates building their own paradise on a sliver of the island. It's going to take sensible policies to prevent the "brain drain" of the commonwealth's best and brightest to the U.S. mainland. It's going to take government officials that are technocrats first and foremost, rather than susceptible to scandal and cronyism. And, most likely, it's going to take a good deal of luck to avoid the kind of devastation brought by Hurricanes Irma and Maria in 2017 that could set back any recovery efforts.

Exiting bankruptcy alone won't bring Puerto Rico prosperity and vitality. But it's a crucial first step. Pierluisi is correct that it is a new day for the commonwealth. It's also going to be a workday.

Bloomberg Politics

By Brian Chappatta

January 19, 2022, 8:00 AM PST

Puerto Rico Bonds Rise as Judge Set to Accept Modified Debt Plan.

- **Swain orders revisions and will approve 'promptly' once filed**
- **Board will review judge's changes and intends to refile**

Prices on some Puerto Rico bonds increased after the judge overseeing the island's bankruptcy signaled she may confirm a debt-restructuring plan soon, a ruling that would allow the commonwealth to exit from more than four years of court oversight.

U.S. District Court Judge Laura Taylor Swain late Monday directed the island's financial oversight board to revise its debt-restructuring deal by Friday and said she plans to confirm that workout plan soon after.

The judge's changes aren't expected to alter the debt plan dramatically. Many of her revisions involve paying eminent domain claims, which the board was already preparing to budget for, according to a court document the panel submitted on Dec. 21.

"It seems like it's minor changes and it can be done quickly and she seems confident that she can move it ahead," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages $36 billion of state and local debt, including Puerto Rico securities.

If Swain were to approve the debt-restructuring plan, it would mean Puerto Rico's bankruptcy, the largest ever in the $4 trillion municipal-bond market, would finally wind down after hurricanes, earthquakes, political turmoil and the pandemic delayed the process.

Friday Deadline

General obligations with an 8% coupon and maturing in 2035 traded Tuesday at an average 90.1 cents on the dollar, up from 89.3 cents on Monday, according to data compiled by Bloomberg.

Swain detailed changes she wants the board to make to the debt adjustment plan and submit the revised version by Friday, 11:59 p.m. Atlantic Standard Time, which is 10:59 p.m. Eastern Standard Time, according to an order filed late Monday.

Once the board files the revised plan on Friday, Swain would then "promptly" submit her confirmation order approving the debt restructuring plan, according to the judge's order.

The oversight board is reviewing Swain's order and intends to file the revised debt plan by Friday, Matthias Rieker, spokesperson for the board, said in a statement Monday following Swain's order.

"The oversight board welcomes this latest progress towards confirmation of the plan, which would significantly reduce the Puerto Rico government's total liabilities," Rieker said in the statement.

Eased Payments

The restructuring deal would reduce $33 billion of debt and other obligations, including cutting $22 billion of bonds to $7.4 billion. It would ease Puerto Rico's annual debt service payments and establish a reserve trust for its broke pension system, which owes current and future retirees an estimated $55 billion.

Swain's revisions include treating allowed eminent domain claims as secured, rather than unsecured, and that Puerto Rico must pay the full amount of what a court determines is the value of those claims, according to the order.

Swain's order included a 149-page findings of fact and conclusions of law and a 93-page confirmation order for the plan of adjustment that the court is prepared to file "promptly" once the board submits its revised debt plan.

Bloomberg Markets

By Michelle Kaske

January 10, 2022

[Flush California Can Forgo Wall Street and Tap Cash for Projects.]

California, girded with billions of dollars in surplus, can afford to pay for construction costs without asking for help from bond investors.

Governor Gavin Newsom's budget for the next fiscal year calls for paying $500 million to complete four capital projects, instead of selling taxable municipal bonds, according to the state's finance department. That would save the state $350 million in financing costs.

"We're swapping lease revenue bonds for cash," Newsom told reporters in a Sacramento briefing on the budget Monday. "It's an example of some of the work we're doing to yes, make government more efficient."

Of the projects, which are nearing completion, three are in state corrections facilities and the other is the headquarters of the military department, according to the finance department. Because of construction delays, the ventures don't qualify for tax-exempt financing under federal rules. The state is awash with a $45.7 billion surplus, including $21 billion of funds that lawmakers can tap for any use.

Legislators must approve Newsom's budget, which will be updated in May.

Bloomberg Politics

By Romy Varghese

January 11, 2022, 12:49 PM PST

[Eagle Senior Living Files for Bankruptcy, Citing Labor Costs]

Eagle Senior Living filed for Chapter 11 bankruptcy on Friday, citing "exponential" increases in labor costs.

The pre-arranged filing will allow the chain to operate without interruption and make needed capital improvements, Eagle said in a Friday press release. The company listed both assets and liabilities in the range of $10 million to $50 million. It also holds $215 million in municipal debt.

Plunging occupancy during the pandemic and higher wage and supply costs have pummeled the sector, resulting in $1.67 billion in municipal bond defaults for senior living facilities last year. Not only did Eagle's occupancy decline, Eagle President Todd Topliff said in a court filing, but the pandemic "placed unprecedented stress on the sales and marketing efforts of the Facilities."

Even with fewer residents, the company wasn't able to reduce staff because of health and safety protocols, all the while contending with higher costs for supplies and meals, according to Topliff.

Eagle was formed only in 2018 with the purchase of facilities from Brookdale Senior Living Inc. It now operates 15 facilities in seven states including Florida and Ohio with about 1,000 residents. It plans to sell its Vista Lake facility as part of the bankruptcy process.

The company is working with law firm Polsinelli and FTI Consulting.

The case is American Eagle Delaware Holding Company LLC, 22-10028, U.S. Bankruptcy Court for the District of Delaware.

Bloomberg Markets

By Lauren Coleman-Lochner and Martin Z Braun

January 14, 2022, 12:31 PM PST

[Berkeley's Decision to Incorporate Blockchain into Microbond Financing Program Sparks Controversy.]()

Berkeley residents expressed their concerns and frustrations following an announcement by Berkeley Mayor Jesse Arreguín on Twitter sharing the city's plans to incorporate blockchain into the municipal bond system.

The concerns raised by the residents include the environmental impact of blockchain and the security of the technology.

"Crypto and blockchain applications have—so far—taken a path that I believe is directly opposed to the city's stated goals around mitigating climate change," said Berkeley resident Marc Hedlund in an email.

According to City Councilmember Ben Bartlett, who is credited with introducing the idea to the city, the mining operations of earlier blockchain applications were environmentally caustic, but newer applications of blockchain are not.

However, Hedlund alleged in an email that only 4.2% of transactions use the more environmentally friendly blockchain technology, which requires far less electricity.

"If our intention is to make bonds available to people with lower net worth so they can invest more easily, should we be relying on systems that are the vast minority of an already just-emerging technology—the cutting edge of the cutting edge, so to speak?" Hedlund said in the email.

Berkeley resident Peter Seibel said in a Twitter direct message that he sees the value of microbonds but cites similar concerns and believes incorporating blockchain technology does not necessarily make it less risky for the city or the people who invest in them.

However, Bartlett refuted security concerns, stating the decentralized nature of blockchain makes it less hackable and less penetrable.

"Blockchains provide a real-time audit. You cannot erase what happened on it. It is immutable as they say," Bartlett said. "They are more secure and they allow programmability, so you can have the instruments do whatever you imagine they should be doing for the community."

The idea to introduce blockchain technology into the municipal bond market came after the federal tax cuts imposed during the Trump administration, according to Bartlett. He added that incorporating blockchain technology as a new tool for community finance creates a system that has the ability to withstand changes to federal policy.

Bartlett affirmed his faith in the consultants working to develop this project, citing their experience and "technological prowess" and believes criticism of the initiative is premature, asserting that the project is merely a pilot and participation is optional.

The council member further highlighted that the city has prior financing successes, such as the invention of Property Assessed Clean Energy, or PACE, financing, and that blockchain continues this legacy.

"This is our tradition of financial innovation for the people," Bartlett said.

THE DAILY CALIFORNIAN

BY ANNA ARMSTRONG

JANUARY 4, 2022

U.S. to Back Puerto Rico Law, Slowing Plan to Restructure Debt.

- **Federal intervention may delay island's exit from bankruptcy**
- **DOJ has until Feb. 7 to submit its brief on the case**

The U.S. Department of Justice said on Friday that it will intervene in Puerto Rico's four-year bankruptcy case to defend a federal law that gave the island the ability to cut its obligations through the courts.

The move, intended to stave off challenges that the bankruptcy is unconstitutional, may actually prolong the commonwealth's efforts to restructure its $33 billion of debt and exit court oversight. The bankruptcy is the largest ever in the $4 trillion municipal-bond market.

While a majority of Puerto Rico's creditors have endorsed the restructuring plan, an individual bondholder and two real estate companies allege that Promesa, as the federal bankruptcy law is known, violates the U.S. Constitution.

Their legal action is likely to amount to a technical hurdle that will merely delay the bankruptcy's resolution, unless U.S. District Court Judge Laura Taylor Swain agrees with the holdouts. That would upend Puerto Rico's bankruptcy, which has already been delayed by hurricanes, earthquakes and the coronavirus pandemic.

Puerto Rico's debt plan is the result of years of negotiations between various and sometimes conflicting bondholder classes, insurance companies and labor groups. Those creditors have agreed to the debt plan and haven't questioned Promesa's legality. Congress passed Promesa in 2016 to help resolve the island's financial crisis.

Defending Promesa

"The U.S. respectfully notifies the court and the parties that the U.S. will participate in the above-captioned proceeding for the purpose of defending the constitutionality of Promesa as it applies to the proposed approval of the plan of adjustment," Brian Boynton, acting assistant attorney general, wrote in the notice of participation filed to the court Friday.

DOJ's decision to intervene is expected to delay Swain's ruling on a restructuring plan that would include cutting $22 billion of bonds down to $7.4 billion. Confirmation hearings on that debt plan ended Nov. 23. Swain that month gave the federal government a Feb. 7 deadline to file a brief, if the DOJ chose to defend Promesa.

Puerto Rico has been in bankruptcy since May 2017 after years of borrowing to paper over budget deficits, economic decline and population loss.

Bondholders who support the plan may have the right to pull out of their deal if the reorganization plan is not consummated by Jan. 31, according to court records. This means bondholders will have to decide whether to terminate their agreement and possibly demand a termination fee.

Bloomberg Politics

By Michelle Kaske and Steven Church

January 7, 2022, 6:32 AM PST Updated on January 7, 2022, 8:50 AM PST

Puerto Rico's Economy Is Poised for a Double Boost in 2022.

An exit from bankruptcy, plus new funding in the Build Back Better package, would set the stage for growth on the island.

After more than four years, Puerto Rico is set to emerge from its record bankruptcy in the early part of 2022. While it slashes tens of billions of dollars in debt and shakes off the stigma of default, the U.S. territory could get a further boost: The "Build Back Better" spending package could increase its federal Medicaid funding permanently and, for the first time, extend Supplemental Security Income for the elderly and disabled to U.S. territories.

Antonio Weiss, a senior fellow at the Harvard Kennedy School who led the U.S. Treasury Department's work on Promesa, the 2016 federal law that allowed Puerto Rico to reduce debt through bankruptcy, says there's now reason for optimism and "to think more about investment and the future economy of Puerto Rico in a way that hasn't been possible for decades."

Continue reading.

Bloomberg Politics

By Michelle Kaske and Alexander Ruoff

January 6, 2022

State of Illinois Expands Lobbyist Registration Requirements: Clients Lobbying Local Government Now Required to Register.

The turn of the new year brought sweeping new changes to the State of Illinois's lobbyist registration requirements. Effective January 1, 2022, the State of Illinois now requires lobbyists *and their clients* lobbying at the local level to register with the Illinois Secretary of State. (The changes exempt lobbying the City of Chicago, which is covered by its own local lobbying registration and reporting program.)

Clients who engage with local officials – including elected and appointed municipal, county and township officials and commissioners, whether directly or through hired consultants – are required to register under the changes. The registration deadline is January 31.

The changes also expand the definition of lobbying to include soliciting others to lobby and require registered entities to identify “consultants” who provide advice regarding lobbying strategies, even if they are not themselves engaging in lobbying activity. The new law additionally extends the prohibition on contingency fees to consultants, even if consultants are not directly lobbying.

DLA Piper – Mariah F. DiGrino

January 10 2022

Only State That Tapped Emergency Fed Program Pays Off $2B Loan.

The program was set up in the early days of the pandemic to help steady the then-rattled world of municipal finance. Now, just one government agency still has debt from it outstanding.

Illinois has paid off the remaining balance on a $2 billion loan it took under an emergency lending program for state and local governments set up by the Federal Reserve in the early days of the coronavirus pandemic, the state’s comptroller said Wednesday.

Illinois Comptroller Susana Mendoza said the final payment totaled $302 million. The state was initially scheduled to pay the loan off by December 2023 in three installments, but Mendoza said doing so ahead of time saved Illinois an estimated $82 million in interest costs. The interest rate on the debt was 3.42%.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

JANUARY 5, 2022

Puerto Rico’s Retirement-Plan Woes Persist as Bankruptcy Nears End.

A proposed restructuring would end defined-benefit retirement programs for active teachers and judges

Puerto Rico’s long history of failing to pay its pension obligations is expected to haunt the U.S. territory even after its bankruptcy ends.

A proposed bankruptcy restructuring under consideration by a federal judge would end defined-benefit retirement programs covering tens of thousands of active teachers and judges in Puerto

Rico. The pension benefits public employees have already earned would be honored when they retire, although current workers can't accrue anything more.

Those measures would help close a roughly $55 billion gap between the retirement benefits owed to public servants in Puerto Rico and the funding set aside to pay them. Active teachers and judges are being shifted under the bankruptcy plan into defined-contribution retirement products akin to 401(k)s, ending the defined-benefit formulas in place when many of their careers began. Retirement ages would be increased, delaying when pensions can be tapped.

Continue reading.

The Wall Street Journal

By Andrew Scurria, Sebastian Pellejero and Soma Biswas

Jan. 1, 2022 9:00 am ET

Buckhead City Opponent Criticizes Reporting of Atlanta Bond Sale by SaportaReport.

A founder of an organization opposed to Buckhead cityhood has criticized a story that appeared in SaportaReport concerning Atlanta's sale of bonds this month with terms that contain a poison pill for the cityhood movement.

Michael Handelman, executive director of Neighbors for a United Atlanta, Inc. indicates in a column the Dec. 20 story errs by comparing interest rates levied on bonds sold by Atlanta and by Bexar County, Texas, home of San Antonio.

"This comparison, however, is absurd. Comparing two bond sales in different states (with correspondingly dissimilar statutes governing municipal debt) is like comparing the quality of a single apple at Publix with a randomly selected banana at Kroger," Handelman wrote. "Not only are the technical details of bonds between the two governments different, cherry-picking a single data point of another bond issuance within a $4 trillion US bond market is meaningless."

Neighbors for a United Atlanta was incorporated on Dec. 3 as a non-profit corporation. It provides a Roswell address and names as incorporators Caren Solomon Bharwani, Handelman and William Haney, according to records of Georgia's Secretary of State.

The SaportaReport story Handelman cites appeared under the headline, "Buckhead cityhood effort doesn't seem to cause hike in Atlanta's borrowing costs." The report included this observation:

"A side-by-side comparison of the bond issuances isn't appropriate. No issuers and no deals are alike. However, the two governments share similarities," the story reads. "Both are at the top-tier of credit ratings issued by Moody's Investors Service. Bexar County is at the very top of the scale for its planned sale, while Atlanta is one step lower in the credit ratings for its package. In addition, both governments are the center of burgeoning metroplexes in the South. Both are competing for high-tech jobs."

This Atlanta bond sale illuminates one argument raised for months by cityhood opponents.

The contention is that Buckhead's deannexation likely would result in higher borrowing costs for taxpayers in Atlanta and all cities in Georgia. Investors would recognize the potential for deannexations statewide and with them a reduction in cities' ability to repay loans as their property tax revenues shrink. Investors would offset the risk of non-payment by raising interest rates, according to this argument.

The story reported that this scenario does not appear to be the case in this bond issuance. Terms of Atlanta's bonds include a poison pill: If Buckhead deannexes, it must pay its entire share of the debt, in one lump sum, within a year of the vote to deannex. The measure provides some assurance to investors that they will be repaid regardless of the outcome of the Buckhead cityhood movement.

For a real-time comparison to another city bond issuance, the story reported interest rates investors will pay Atlanta with the rates investors will pay Bexar County.

Both are Sunbelt governments and both have top-tier credit ratings from Moody's Investors Service, with Bexar County one notch higher on Moody's scale. Atlanta sold about $188 million and Bexar County about $411 million.

Rates for Atlanta's bonds range from 0.509 percent to 2.388 percent. Rates for Bexar's bonds range from 0.651 percent to 2.621 percent, according to information provided by an affiliate of the Municipal Securities Rulemaking Board. The Atlanta deal closed on Dec. 23 and Bexar County's closed on Dec. 30.

Handelman's letter cites issues including various aspects of credit ratings, Atlanta's debt and Atlanta's spending before ending with comments that include this look to the future:

> What happens when the current low-interest-rate environment, high investor demand for municipal debt, and a well-performing and stable property tax base flips? For Atlanta, as the cost of new debt increases from higher credit risk, it means that the finely tuned balance of property taxes funding debt service and essential services starts to unravel. This situation inevitably leads to tough decisions to decrease essential services or increase property taxes… The consequences for Atlanta, a hypothetical Buckhead City, and other municipalities in Georgia, may not be immediately apparent in market data, but when clouds, wind and rain appear on the economic horizon, all of us in Georgia will be shivering.

Note to readers: To read Michael Handelman's column, click here. To read the SaportaReport piece that triggered Handelman's column, click here.

SaportaReport

David Pendered

December 31, 2021 4:22 pm

Jefferies Emerges as Winner as Texas Gun Law Rattles the Muni Market.

- **Firm leads Texas underwriting ranks since law took effect**
- **Standing since Sept. 1 compares with 12th place a year earlier**

Jefferies Financial Group is emerging as a clear winner of a faltering effort by Texas Republicans to punish Wall Street banks for their restrictive gun policies.

The lucrative Texas municipal-bond market, second only to California in terms of issuance, has been turned on its head since a law took effect Sept. 1 that bars state entities and local governments from working with firms if they "discriminate" against firearms companies.

With some of Wall Street's largest banks having halted public-finance transactions in Texas because of the legislation, Jefferies is leading firms that have seen their business surge. It was the top municipal underwriter in the fast-growing state for the past four months, whereas in the same period last year it was 12th, data compiled by Bloomberg show.

Continue reading.

Bloomberg Markets

By Amanda Albright and Danielle Moran

December 22, 2021, 7:40 AM PST

Which Bank Will Dare to Finance Alabama's Prisons?

After Barclays dropped out, the state wants assurances that its next bond underwriter won't do the same. That leaves few options.

Alabama just won't give up on selling bonds to finance prison projects.

In April, Barclays Plc backed out as lead underwriter of a large municipal-bond deal for two Alabama prisons owned by CoreCivic Inc., a giant in the private-prison industry. It really had no excuse for the drama: The bank had previously pledged to no longer provide new financing to such companies and seemed to try to use the state's role as a workaround. Soon afterward, Stifel Financial Corp. said it was no longer involved. By September, the state's corrections department terminated its 30-year lease with CoreCivic, and lawmakers advanced a plan to use federal aid to build the new facilities.

The state and the Alabama Corrections Institution Finance Authority are still hoping to sell up to $785 million in bonds as well. The only snag: They need to find an underwriter that won't cave to potential pressure from activists. So Alabama is asking for unusual assurances from banks' senior management.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

December 22, 2021, 3:00 AM PST

[California Community Economic Resilience Fund Update On Final Region Maps, Planning Guidelines Public Comment Period.]

The Community Economic Resilience Fund (CERF) program continues to move forward, with three CERF updates recently released.

First, the final map of 13 regions that will receive up to $5 million planning grants under phase I of the program was published. This map is based on the public comment period that closed in mid-November. Included along with the region map are FAQs that arose during the public comment process. To view the final 13 regions and FAQs, click here.

Continue reading.

CALIFORNIA FORWARD

by SARAH WALSH

DECEMBER 20, 2021

Ohio Department of Development Issues Brownfield Remediation and Building Demolition Funding Guidelines - Local Governments Need to Act Fast

View the Vorys brief.

Vorys Sater Seymour and Pease LLP

by Ryan D.Elliott, Christopher J. Knezevic and David M. Edelstein

December 22 2021

Puerto Rico Bankruptcy-Exit Plan Offers Island a Fresh Start.

- **Workout cuts $33 billion of debt, creates pension reserve fund**
- **Exit 'removes a huge cloud' over the economy: Marxuach**

Puerto Rico is inching closer to ending its more than four-year bankruptcy as the judge overseeing the workout is reviewing a restructuring plan that cuts billions in debt, fixes a broke pension system and potentially returns the commonwealth to balanced budgets.

U.S. District Court Judge Laura Taylor Swain may rule as soon as next month on the debt adjustment deal. If she approves it, Puerto Rico will be able to move past its bankruptcy and focus on boosting its economy and modernizing the island's electrical grid to end chronic outages.

"It removes a huge cloud that's been hanging over the economy for four years now," said Sergio Marxuach, policy director at the Center for a New Economy, a San Juan-based research institute that analyzes the commonwealth's finances. "We can start to change the narrative from 'Puerto Rico is in bankruptcy' to 'Puerto Rico is recovering,' which is positive in terms of attracting investment."

Puerto Rico's been in bankruptcy since May 2017 after years of borrowing to cover operating expenses, economic contraction and population decline as residents left to find work on the mainland. Since then, natural disasters like Hurricane Maria — which left many Puerto Ricans in the dark for a year — as well as political turmoil and the pandemic delayed efforts to emerge from the largest debt restructuring ever in the $4 trillion municipal-bond market.

The lengthy process has pushed Puerto Rico's bankruptcy costs to more than $1 billion.

Debt Service

The debt plan would slash $33 billion of debt and other obligations, including cutting $22 billion of bonds, to $7.4 billion. Investors would exchange their holdings for a lesser amount of new bonds, reducing what the government owes. Bondholders would also receive $7 billion in cash and a so-called contingent value instrument that would pay out if Puerto Rico's sales-tax collections surpass estimates.

The overall reduction means Puerto Rico would only have to pay an average of $666 million for debt service on commonwealth-guaranteed bonds annually for the first 10 years, down from an average $1.6 billion.

The workout plan also is intended to help fix the commonwealth's broke pension system — which owes current and future retirees an estimated $55 billion — by establishing a reserve fund that Puerto Rico would contribute to annually.

Still, Puerto Rico lawmakers likely will struggle to balance budgets as the commonwealth must allocate about $2.3 billion each year in pension payments to retired public workers and as Medicaid costs may increase.

Retirement costs could rise as island lawmakers passed legislation to boost pension benefits for public workers. A federally appointed financial oversight board is asking the court to pre-empt those laws. The judge late Tuesday asked the board for more details to justify nullifying the legislation.

That stress could again make it difficult for the island to pay debt service. Puerto Rico is estimated to face deficits again in fiscal 2036 with a $119 million shortfall, even if island lawmakers implement changes such as making it easier to do business there and programs to expand workforce participation, according to the commonwealth's current multi-year fiscal plan.

'Grow the Economy'

The commonwealth's ability to pay debt service once out of bankruptcy also depends on its economy growing after federal disaster aid and pandemic funds dry up.

"We need to come up with a medium to longer-term plan to grow the economy," Marxuach said.

Investors are watching to see if Puerto Rico leaders stick to sound fiscal policies once the oversight board is disbanded. The panel is set to expire after four consecutive years of balanced budgets and when the commonwealth regains access credit markets.

"There's a lot of uncertainty about where Puerto Rico policies will go," said Matt Fabian, a partner at research firm Municipal Market Analytics. "Will we return to the early 2000s of how Puerto Rico ran itself in or will Puerto Rico actually run itself similar to how other states run themselves?”

Prices on some commonwealth general obligations bonds are trading higher than what bondholders will receive in the exchange as investors factor in the upfront cash payment and potential sales-tax revenue. General obligation bonds with an 8% coupon and maturing in 2035 traded Tuesday at 89 cents on the dollar, above the 67.7 cents that bondholders will receive for that security, according to data compiled by Bloomberg.

The oversight board that manages Puerto Rico’s bankruptcy negotiated the debt adjustment deal rather than the commonwealth’s elected officials. That has created animosity on the island against the oversight board, especially as the panel has sought to cut spending on colleges and aid to municipalities while lawmakers have balked at cuts to public employee pensions. Governor Pedro Pierluisi supports the debt restructuring plan.

“The last thing you want is the people nominally in charge working against the plan,” said Steven Rhodes, a retired federal judge who oversaw Detroit’s 2013 bankruptcy. In Puerto Rico, “the people and their leaders feel cut out of the process.”

Bloomberg Markets

By Michelle Kaske

December 15, 2021, 4:00 AM PST Updated on December 15, 2021, 6:04 AM PST

— With assistance by Steven Church

Muni Bankers See Texas Fee Bonanza With Schools Racing to Build.

- **Population boom in Texas has schools borrowing to expand**
- **GOP battle with Wall Street threatens lucrative business**

A population boom in Texas is fueling a surge in borrowing by schools that need to expand. On Wall Street, bankers are eager to get their share of more than a quarter of a billion dollars in underwriting fees from bonds financing all that construction.

Texas voters have approved $53 billion of school bonds since 2017, a 50% increase over the previous five years, according to data compiled by the Texas Bond Review Board. Since the sales are typically spread out over time it means years worth of lucrative business. Schools in Texas this year paid banks a fee of about $5.13 for every $1,000 of bonds, meaning there was roughly $272 million at stake.

“The K through 12 market is perhaps the most important segment of the muni market in Texas,” said Ajay Thomas, head of public finance at FHN Financial in Austin.

The borrowing comes as the state’s population grew by about 4 million over the past decade, with roughly 1,000 people moving in every day, lured by low taxes, affordable homes and plentiful jobs. But the borrowing binge comes as Republicans who control the Texas statehouse have clashed with Wall Street over issues such as guns and climate change and threatened to curb municipal-bond underwriting for some of the biggest banks.

Data reported to the Texas Bond Review Board indicates school districts have sold less than half of the bonds approved by voters since 2017, a report published in August shows. That data though is compiled through various sources and likely doesn't capture all authorized bond sales.

School bonds accounted for more than a quarter of all sales in Texas this year, the largest sector in the state, data compiled by Bloomberg shows. And districts are consistently in the market, often with decently sized deals. While the average sale throughout the municipal market is roughly $50 million, there were more than three-dozen Texas school bond sales of more than $100 million each this year and more than 10 that were larger than $200 million, the data shows.

Large-ticket borrowers like big cities, major airports or the state's department of transportation, on the other hand, come to market once or twice a year and often rotate their underwriters. That leaves banks a shot at managing just one of those big deals every couple of years.

"That's not that many bites at the apple," said Keith Richard, head of the Texas region at Siebert Williams Shank & Co. "Two hundred million is a large deal; everyone wants to do a deal like that and there are way more of those deals in K-12 than there are anywhere else."

The explosive population boom has forced districts, particularly those in the suburbs of the major metro-areas of Austin, Dallas, Houston and San Antonio, to expand and build new schools. Public school enrollment in Texas has grown by about 11% in the last decade, according to the National Center for Education Statistics projection data. In New York, that number fell by about 1%, the data shows.

The Texas school bond industry is very much a handshake business where long-standing relationships are imperative. That has Wall Street shops in Texas recruiting school officials to help open doors. The Texas public finance groups at Robert W. Baird & Co Inc, Raymond James Financial Inc, and Piper Sandler, among others, all have former school financial officers or superintendents on their payrolls.

"When I was on the other side of the table, I didn't do business with people I didn't have complete trust in," said Steve Fortenberry, a vice president at RBC Capital Markets, who spent the first three decades of his career working in school administration as the chief financial officer for districts in Plano, McKinney and Fort Worth.

The Fort Worth Independent School District asked voters to approve a $1.2 billion ballot measure in November, the largest proposition anywhere on election day. The measure, which will finance a new elementary school to ease overcrowding and pay for major renovations to existing facilities, passed by 57 votes.

There were 223 school bond measures on the ballot in Texas in May and November, 145 of which passed, totaling about $11.7 billion. Still, in November just over half of propositions failed — signaling that voters weren't universally willing to open up their wallets. That has district officials worrying about missing out on borrowing rates hovering near record lows.

"Any future bond market may not be as advantageous," said Elaine Cogburn, chief financial officer of the Leander Independent School District outside of Austin, which saw voters in November reject two of three bond measures worth nearly $740 million.

Meanwhile, muni bankers across Texas are working their connections with district officials to get a shot at the billions worth of bonds that voters have authorized but haven't yet been issued.

"I'll just keep knitting the blanket, calling on people and forging those relationships," said RBC's Fortenberry. "The market-share and the growth are going to follow."

Bloomberg Markets

Danielle Moran

December 17, 2021

— With assistance by Nic Querolo

Connecticut Pension-Debt Paydown Boosts Bonds, CreditSights Says.

- **State may plow $6.3 billion surplus into pensions through 2026**
- **CreditSights anticipates tax revenue will continue to grow**

Connecticut’s general obligation bonds are poised to outperform the broader municipal-debt market as surging tax revenue allows the state to chip away at its $41 billion public pension debt, CreditSights Inc. said.

The firm revised its rating on the state’s general obligations to market outperform from market perform before the state’s $800 million bond issue set to price Tuesday.

Connecticut has transferred almost $1.7 billion in surplus cash into its underfunded state employee and teachers’ pension funds in the last two years and it may plow an extra $6.3 billion into the retirement system over the next five years, according to bond offering documents.

“The credit concern people have had with Connecticut is the pension and the size of the liability, and that’s kept their rating low,” said John Ceffalio, senior municipal credit analyst at CreditSights. “To make that extra contribution over and above what the actuaries are requiring is meaningful.”

Connecticut’s rainy-day fund is projected to grow to about $5 billion at the end of the fiscal year in June, enough to cover almost a quarter of general-fund spending, and the state received $2.8 billion under the American Rescue Plan.

Surging stocks and Wall Street profits have boosted capital-gains-tax revenue, while sales-tax collections are also rising. Connecticut is also reaping the reward of booming real estate as New York City residents move to the suburbs amid the pandemic.

Revenue Growth

Overall, state tax revenue grew 12% in fiscal 2021 and is projected to rise 5% this fiscal year, according to CreditSights. The state projects a $900 million budget surplus this year and a $530 million surplus in fiscal 2023.

Growing reserves will help ease the fiscal stress caused by the state’s high debt load and retirement costs. In 2017, lawmakers passed a bill requiring the state, which is heavily reliant on Wall Street for income-tax revenue, to stock its rainy-day fund with any capital-gains and bonus taxes that exceed a certain threshold.

State law caps the budget reserve at 15% of spending, with any excess transferred to pensions.

Connecticut’s State Employees’ Retirement System has a funding ratio of 38.5%, while the teachers’ pension is 51% funded. In comparison, the median public-pension funding level was about 73% in fiscal 2020, according to the National Association of State Retirement Administrators.

Governor Ned Lamont, a Democrat, has put Connecticut on a “debt diet” that’s slowly paying off. The state’s general obligation debt declined to $18.2 billion in 2021 from $18.8 billion in 2020, according to the offering document.

Spread Squeeze

To be sure, there’s not much room for its bonds to outperform. The extra yield investors demand for the risk of holding Connecticut debt maturing in 10 years has plummeted to 0.18 percentage point from 1.1 percentage point in May 2020, data compiled by Bloomberg show.

Only Illinois and New Jersey have wider spreads, at 0.58 percentage point and 0.32 percentage point, respectively.

“We could see over the next year, potentially, some upward movement in the ratings or outlook and that should drive spreads a little tighter,” Ceffalio said.

Fitch Ratings assigns a AA- rating to Connecticut’s general obligation bonds, its fourth-highest investment grade. Moody’s Investors Service gives it a comparable Aa3 rating. S&P Global Ratings ranks it one level lower at A+. The companies all have a stable outlook on the bonds.

Bloomberg Markets

ByMartin Z Braun

December 13, 2021, 3:32 PM EST

Texas Biomed's Inaugural Bond Sale Named "Deal of the Year"

SAN ANTONIO, Dec. 20, 2021 /PRNewswire/ — Texas Biomedical Research Institute’s inaugural bond sale has been named the 2021 Deal of the Year by Smith’s Research and Gradings, an investment research and analysis company. Smith’s annual Municipal All-Star Awards recognizes outstanding municipal bond analysts and investments, based on votes by 1,000 institutional investors.

Texas Biomed’s inaugural bond sale has been named the 2021 Deal of the Year by Smith’s Research and Gradings.
“Out of all the municipal bond transactions in a given year, the analysts picked our inaugural bond offering as the deal of the year — that’s incredible recognition from the Wall Street community and further validation we are on the right track with our strategic plan,” says Bruce Edwards, Executive Vice President and Chief Financial Officer of Texas Biomed.

The municipal bond sale in September 2021 raised a total of $65 million, which helped retire $43 million in short-term bank loans that funded new laboratories and upgrades. It also raised $22 million in new capital, which will support ongoing efforts to expand Texas Biomed’s infectious disease research capabilities as part of its 10-year strategic plan.

“I’m really proud of Smith’s 2021 Deal of the Year as an example of how municipal bonds are helping build a better future,” says Terence Smith, Chairman and CEO of Smith’s Research and Gradings, who presented the award in New York City on Dec. 8. “The purpose of municipal bonds is to support our world and our one future together. The transaction is in many ways a perfect use of municipal bonds. The Texas Biomedical Research Institute, funded with muni bonds, specializes in battling infectious diseases like COVID.”

Edwards worked with Bank of America and Siebert Williams Shank & Co., LLC on underwriting the bonds, with support from many critical partners. He stressed it was a true team effort to prepare, market and sell the bonds during the COVID-19 pandemic.

Ted O. Matozzo, Director in the Public Finance Investment Banking group at BofA Securities, Inc. was the lead banker on the transaction. “My work allows me to assist many great non-profit organizations to achieve their essential missions through funding in the capital markets,” Matozzo says. “The chance to work with Texas Biomed on their inaugural public debt issuance was truly a remarkable opportunity given the tremendous work that they do to improve global health and protect the world from infectious disease.”

As part of the process, Texas Biomed had its credit worthiness evaluated for the first time in its 80-year history. The Institute received an investment grade credit rating of Baa1 from Moody’s. Still, Edwards was not sure how interested investors would be in Texas Biomed.

“Ultimately, we had more buyers than bonds available,” Edwards says.

The bond sale helped Texas Biomed ensure steady financial footing into the future. Rather than having a bank loan with variable interest rates, Texas Biomed can now repay the municipal bonds at a fixed interest rate over 30 years. The bonds also removed collateral obligations that limited the type of investments Texas Biomed could make with endowment funds.

Past winners of Smith’s Deal of the Year include the New York Transportation Development Corporation, which issued more than $1.38 billion in special facilities revenue bonds for Delta Airlines to redevelop terminals at LaGuardia Airport.

“This is a fantastic honor for our brilliant financial team and underscores how the broader community believes in our role and ability to eradicate the threat of infectious diseases here at home and around the world,” says Texas Biomed President/CEO Larry Schlesinger, MD. “They are investing in us and the future of human health.”

By Texas Biomedical Research Institute

Dec 20, 2021

Atlanta Marketed Bonds with Poison Pill for Buckhead Prior to Council Approval.

Atlanta went to market with about $188 million in bonds with terms of a poison pill for the Buckhead City effort the day before the Atlanta City Council met Wednesday to consider the defensive maneuver.

The bonds were presented to investors Tuesday. On Wednesday afternoon, hours after the council met to consider the poison pill, Atlanta sold about $145 million in bonds, according to records provided by an affiliate of the Municipal Securities Rulemaking Board. The remainder was sold

Thursday. Bonds were sold in various denominations

Atlanta Mayor Keisha Lance Bottoms' administration approved the presentation of the bonds to investors on Tuesday. The council's meeting Wednesday was for the express purpose of considering changes to the terms of the bonds that authorized a poison pill. It is intended to establish financial consequences, likely in the tens of millions of dollars, for parts of Atlanta that deannex, according to the legislation. The council voted around noon Wednesday to include the poison pill.

Mayor-elect and current Councilmember Andre Dickens did not attend the virtual City Council meeting, according to a record of attendance. Bottoms supported Dickens in his mayoral campaign.

The poison pill, according to the legislation, "is in the best financial interests of the City… in the event that the General Assembly of the State enacts a Deannexation Act…" The deannexation refers to the Buckhead cityhood effort.

If enacted, the provision would require Buckhead City to pay Atlanta its share of a debt — up to $198 million — in a lump sum a year after the new city is formed, according to terms outlined in the legislation. The amount of payment is to be determined if and when Buckhead City is established. The City Council would have to vote to call the debt, under the terms of the "extraordinary optional redemption" provision.

Council Finance Committee Chair Jennifer Ide said during the meeting she had been unaware of the poison pill. Ide said several councilmembers were unaware of the poison pill language prior to reading about it in a story posted Tuesday in SaportaReport. Ide did not seek reelection to serve a second term on council.

Ide had initiated the move for the paper to be considered Wednesday, rather than as scheduled at the council's Dec. 6 meeting. Ide made the motion Dec. 6 to hold the paper for the special-call meeting Wednesday. The council voted unanimously in favor. The paper had been portrayed as a routine modification of legislation passed in October to refinance up to $198 million in debt.

Trades were being processed even as the council met to consider the terms of the sale.

One example is a sale of bonds for a total of $23.1 million sold Wednesday, in full, between 4:31 p.m. and 4:40 p.m., records show. The settlement date is Dec. 23, an important date because buyers have until then to terminate the deal if the City Council changes the terms of the bond by eliminating the poison pill.

Atlanta CFO Mohamed Balla told the council during its meeting Wednesday that buyers have the option to terminate their purchases if terms were changed. Doug Selby, a veteran bond and underwriters' counsel with Hunton Andrews Kurth, LLP, concurred.

The council approved the poison pill by a vote of 11-1. Buckhead-area Councilmember Howard Shook cast the dissenting vote. Shook made a motion to remove the poison pill provision. It failed.

The poison pill vanishes if Buckhead voters reject the deannexation proposal, according to the legislation. Following a description of steps by which Atlanta can provide for the money to be collected, the terms empower voters to make it all go away.

"Notwithstanding the foregoing, in the event that the referendum question in favor of deannexation shall fail such fees, taxes, or assessments shall automatically and without further legislative action be reduced to 0.00 mills," the provision reads.

A mill is a $1 tax on every $1,000 of assessed property value. The general obligation bonds to be refinanced are exempt from federal taxes and serviced with property taxes collected in the city, according to the legislation.

Saporta Report

By David Pendered

December 16, 2021

[Citi Muni Deal Wins Preliminary Approval From Texas Officials.]

Citigroup Inc. is poised to officially re-enter the Texas municipal-bond market after winning preliminary approval for its first bond sale since a new GOP law caused the bank to stop underwriting state and local debt transactions there.

The Texas attorney general's office provided preliminary approval on a school district debt sale that Citigroup underwrote last month, according to a person familiar with the matter. It's an encouraging sign for the bank, which had to halt its Texas municipal-bond underwriting as it worked to comply with the law seeking to punish Wall Street banks for their gun policies.

Citigroup paused its Texas municipal business after the law went into effect on Sept. 1. The measure barred governments in the state from working with companies that "discriminate" against firearm businesses or trade groups. In 2018, the bank said it would forbid retailers that are its customers from offering bump stocks or selling guns to anyone who hasn't passed a background check or is younger than 21.

But the bank has repeatedly said it can comply with the legislation. In November, Citigroup won an auction for a $26 million bond offering sold by the Alamo Heights Independent School District, which stands to be the firm's first muni deal in Texas since late August.

The attorney general's office, which reviews proceedings for bond deals in Texas, typically provides a so-called preliminary approval letter to issuers five business days before the bonds are supposed to close, according to its website. Final approval is expected two business days before the close of the deal, the website says.

The office of Texas Attorney General Ken Paxton, a Republican, did not respond to a phone call and email seeking comment on Wednesday. A representative for Citigroup declined to comment.

The public finance division in Paxton's office sent the preliminary approval letter for the school district's bonds on Tuesday, according to the person, who asked not to be named because the letter isn't public yet.

The bond documents for the Alamo Heights Independent School District deal show the closing date is expected to be on or about Dec. 14.

Mike Hagar, the district's assistant superintendent of business and finance, said in an email in November that they felt "confident" with Citigroup and that the attorney general's office would approve the sale. Hagar did not immediately respond to a request for comment on Wednesday.

Bloomberg Markets

By Amanda Albright and Danielle Moran

December 8, 2021, 10:58 AM PST

[The South's Casino Capital Is Selling Bonds in a Bet on Wholesome Fare.]

- **Water park, hotels would replace casino in Mississippi county**
- **County to sell about $148 million of munis for project funding**

One of the U.S.'s top gambling destinations is issuing bonds next week in order to diminish its reliance on casinos.

Tunica County, Mississippi, is selling about $148 million in urban renewal revenue bonds to convert the former Harrah's resort into a complex featuring a convention center, two hotels, a water theme park and a youth sports complex.

"This project is intended to create a family-oriented venue as a complement to the existing gaming and tourism industry in the region," according to offering documents for the deal, which is unrated and will be sold to qualified investors in minimum denominations of $100,000.

The move by the county of almost 10,000 residents to expand its offerings underscores the peril of tying one's economy to gambling. As it says in preliminary offering documents, "In the early days of Mississippi gambling, there was little competition, with patrons trekking from Oklahoma, Missouri, Tennessee and elsewhere." But those days are over, the documents say, because those "and many other states" have their own casinos.

This deal has a lot of moving parts. The basic framework is as follows: The issuer of the bonds is Tunica County. Proceeds of the sale will be loaned to Tunica Hospitality & Entertainment LLC to acquire and redevelop the 2,220-acre property. The issuer will then lease the property from Tunica Hospitality & Entertainment for as long as 30 years, with lease payments covering debt service. The county is going to pay the developer annual fees, while also selling the developer the asset concurrently with the bond transaction.

The county says the resort will open in stages. CBRE Hotels, author of the feasibility study contained in the offering documents, projects revenue at $35 million in 2022, $104 million in 2025 and almost $124 million in 2031. Annual debt service, meanwhile, is projected at $11.2 million, with annual debt-service coverage at around three times.

Buyer's Risk

And if the money doesn't pour in, in adequate amounts? That's the bond buyer's risk. The issuer doesn't have any obligation to levy special taxes to support the debt. As it says right on the cover of the memorandum, purchase of these bonds "involves a significant degree of investment risk."

The county, which is located on the Mississippi River in the northern part of the state, less than an hour by car southwest of Memphis, Tennessee, "is one of the top six destinations in the United States in terms of gambling revenues," according to offering documents.

But even that ranking may not be enough. Back in 2014, when Caesars Entertainment Corp.

shuttered the Harrah's casino in Tunica, the largest of 10 in the area at the time, a Caesars executive told Bloomberg News, "There's just too much supply in that market."

This was just seven years after the Federal Reserve Bank of St. Louis published an article headlined, "Tunica, Mississippi, Lays Big Bet on the Casino Industry," and referred to the "Tunica miracle."

The feasibility study describes the rise and fall of the casino market in the county.

In 1990, state lawmakers made gambling legal along the Gulf Coast and on major waterways, and in 1992, the first casino in the county opened. Nine others followed, and Tunica became "The South's Casino Capital."

Economic Improvement
The local economy does appear to have reaped some benefits. In 1989, it "ranked fourth in the United States in terms of the number of families below the poverty level," according to the CBRE study. It's currently 269th, out of more than 3100 counties, according to U.S. Census data.

But even with that improvement, the feasibility report is a study in dejection: "The Northern Mississippi casino market continues to decline, a trend that began in 2007 due to increased competition" and that accelerated with the 2007-2009 recession. Since 2010, the study says, gaming revenue has dropped at a 6.4% average annual rate in the county.

And yet, casinos still form the basis of the bond issuer's pitch to investors. The executive summary points out that "as of 2020, Tunica County has the highest level of tourism spending of any Mississippi county, and this property will benefit from its location and proximity to casinos."

Gamblers are by nature an optimistic bunch. Perhaps more wholesome fare and the convention business will succeed where casinos have not. That's the big bet the buyers of these bonds are making.

Bloomberg Markets

By Joseph Mysak Jr

December 9, 2021, 7:11 AM PST

— With assistance by Alexandre Tanzi, and Sam Hall

(Joe Mysak is a municipal market columnist who writes for Bloomberg. His opinions do not necessarily reflect those of Bloomberg LP and its owner, and his observations are not intended as investment advice.)

S&P Pension Spotlight: Arizona

Key Takeaways

- 2021 actuarial assumptions have reduced risk and, along with $1 billion in state contributions, were conducive to a more favorable outlook on state pension plans compared to the fiscal 2020 position.
- Arizona's largest statewide pension plans are relatively underfunded as of fiscal year-end 2020 based on relatively aggressive market return assumptions, which could lead to cost volatility.

- Pension costs are expected to rise for issuers across the state due in part to growing legacy costs, which could stress some local government budgets.
- Pension obligation bond (POB) issuance increased over the last two years, which we expect will continue for municipalities, counties, and now fire districts.

Continue reading.

New Jersey, Illinois Get an Accidental Economic Reset.

Among the many ripples that came out of the 2008 financial crisis, one was the financial damage to older, slower-growing, heavily-indebted states like Illinois and New Jersey. Investments in infrastructure and public employees had to be put on hold as the governments spent years grappling with budget deficits and high levels of debt. Now, thanks to the surge in tax revenues being delivered by the current economic rebound, these states have an opportunity they haven't had in 15 years: the ability to invest rather than figuring out how to cut the budget.

It's a reminder of how federal dollars and a robust recovery can have a dramatic impact on what were previously perceived as structural problems.

Illinois and New Jersey have the lowest credit ratings of all the states, hovering not far from junk status. They've had multiple downgrades from the major ratings agencies since the 2008 recession driven by ever-growing long-term liabilities like pension obligations, aging populations, slow population growth, and a rising tax burden that has led to the loss of businesses and residents who move to states with lower costs of living. There have been no easy solutions to this predicament, which is why the problems have persisted and grown worse for more than a decade.

But the past 18 months has shown there was an easy solution, however improbable its origin (and with uncertainty about how long it will last): explosive economic growth that leads to a surge in tax revenues. The recovery in tax revenues has actually been faster than the recovery in economic activity has been; since the fourth quarter of 2019, the nominal level of gross domestic product has increased by 6.9% while the level of state and local government tax receipts has risen 12.0%.

Continue reading.

Bloomberg Tax

Dec. 10, 2021, 3:00 AM

Illinois's Cost of Debt Falls as Chicago Preps New Bond Sales.

- **State's credit ratings rise with federal aid, higher revenue**
- **Drop in Treasuries helping muni deals this week: Lord Abbett**

Illinois's $400 million municipal bond sale Wednesday is the first in a string of sales from issuers in the Land of Lincoln this month as the state's cost to tap the $4 trillion market has shrunk following an improved outlook on increased revenue and billions in federal aid.

"Illinois was able to get much improved spreads in rates compared to where they were a year ago based upon their more positive outlook and the strong demand for incremental yield in the market right now," said Dan Solender, director of tax free fixed income investments for Lord, Abbett & Co., which holds $36 billion in muni assets including Illinois debt. Deals this week also are benefiting from a drop in Treasuries, he said.

The state sold $400 million in tax-exempt bonds through a competitive deal and saw the penalties over benchmark municipal securities drop sharply from a year ago, according to data compiled by Bloomberg. Morgan Stanley purchased one $200 million series with spreads ranging from 17 basis points for debt maturing next year to 52 basis points for bonds due in 2031 with 5% coupons. Barclays bought the remaining bonds with spreads ranging from 54 basis points for debt with a 5% coupon maturing in 2032 to 116 basis points for bond due in 2041 with a 3% coupon.

Around this time last year Illinois paid much more to borrow from the muni market. In October 202O, a competitive tax-exempt sale by the state drew spreads ranging from 97 to 294 basis points. At that time, Illinois was feeling pressures from the pandemic layered on top of years of self-inflicted financial woes.

Illinois was the only state to borrow from the Federal Reserve's Municipal Liquidity Facility last year and did so twice as its costs in the muni market surged. It was facing the threat of its credit rating falling to junk after voters rejected a shift from its flat income tax rate to a graduated levy. Long-term problems included almost no money in its rainy day fund, a roughly $140 billion unfunded pension liability and billions more in unpaid bills.

Illinois has seen a vast improvement in its financial outlook over the last year. The state expects a bigger surplus this fiscal year and smaller gaps in the next four annual budgets thanks to a quicker than expected recovery in revenues and billions in federal aid. In mid 2021, Illinois also received upgrades from S&P Global Ratings and Moody's Investors Service, the first in more than 20 years, while Fitch Ratings boosted its outlook to positive from negative. The state also has paid off $2.3 billion of the total $3.2 billion it borrowed from the Fed.

"The results of today's sale really reflect the improving credit story for the state as well as the supply demand mismatch as we round out the year," said Dora Lee, director of research for Belle Haven Investments, which holds $15.7 billion in muni assets. "We expect the Chicago deals next week to benefit from the credit improvements at the state level since the two are so interconnected."

Amid strong demand from investors, other issuers from Illinois are also expected to come to market this month. The planned sales include a $600 million deal Thursday from the Illinois State Toll Highway Authority and $270 million from the city of Chicago next week, according to bond documents. Chicago's Sales Tax Securitization Corp. also is slated to sell about $981.5 million in second lien bonds as well, according to filings.

Bloomberg Markets

By Shruti Singh

December 1, 2021, 12:43 PM PST

— With assistance by Danielle Moran

New York Is Set to Refinance One World Trade Center.

- **Agency approves bonds to redeem debt on NYC's tallest building**
- **Silverstein also plans 7 World Trade Center refinancing**

A state agency approved $700 million in bonds to refinance debt used for One World Trade Center, the tallest building in New York City, located on the site of the towers destroyed on Sept. 11, 2001.

New York Liberty Development Corp., created in 2002 to help rebuild lower Manhattan after the terrorist attacks, plans to issue the bonds this month on behalf of the Port Authority of New York & New Jersey. Proceeds will redeem securities sold in 2011 to help finance the 1,776-foot structure. Siebert Williams Shank & Co. and Goldman Sachs Group Inc. will manage the deal.

Separately, the agency approved developer Larry Silverstein's selection of Goldman to manage a $525 million refinancing for nearby 7 World Trade Center. The building opened in May 2006, the first in the new complex. Silverstein last refinanced the municipal bonds for the 52-story building in 2012. The date of the bond sale wasn't immediately available.

Market prices for trophy office buildings in lower Manhattan have suffered more than those in midtown during the coronavirus pandemic. The valuation of the World Trade Center complex and Goldman's headquarters at 200 West Street fell by about 23%, compared with a 14% median decline for landmark buildings in midtown for the fiscal year beginning July 1, according to the city's Department of Finance.

One World Trade had leased about 90% of its 3 million square feet of commercial office space as of March 31, according to an April Port Authority bond offering document. 7 World Trade Center was 95% occupied as of Sept. 30, according to a quarterly management report from Silverstein Properties.

Bloomberg Markets

By Martin Z Braun

December 2, 2021

Illinois Effort to Fix Ailing Local Pensions Faces Legal Hurdle.

- **State law mandates merging of assets for 650 funds by mid 2022**
- **No police funds have shifted assets amid pending court ruling**

A court ruling as soon as this month will help determine the fate of one of Illinois Governor J.B. Pritzker's key plans to ease the massive shortfall in local pension funds across the state.

A 2019 law championed by Pritzker would merge about 650 local police and firefighter pensions with assets topping $16 billion into two funds to cut costs and improve returns. Fixing the underfunded plans, which weigh on budgets and credit ratings of many communities statewide, is critical for Illinois's economic rebound.

The law set a June 30 deadline for the consolidation of the funds, but many of the local pensions are hesitating or even refusing to merge until they learn the outcome of litigation to block the combining. Three dozen current employees and retirees, along with 18 local retirement plans, filed a lawsuit in February in Illinois circuit court saying the consolidation violates the state constitution. A key ruling is expected as early as December, said Daniel Konicek, an attorney representing plaintiffs.

The 2019 state law was “a positive step forward for Illinois pensions,” said Geoffrey Buswick, an analyst for S&P Global Ratings, noting that many smaller pension funds are chronically underfunded, which weighs on municipalities’ credit quality.

“Will it work? There’s no guarantee,” he added.

The stakes are high for Illinois. The Land of Lincoln is the lowest-rated U.S. state even after recent upgrades, and fixing pensions is critical as it recovers from the pandemic. The state isn’t obliged to bail out local retirement plans, but if municipal governments are struggling, Illinois will lag as well.

A spokesperson for Illinois Attorney General Kwame Raoul declined to comment, citing pending litigation, while spokespeople for Pritzker did not respond to emails and calls seeking comment.

Funds Wait

Five statewide systems have a total unfunded liability of about $144 billion. And the collective unfunded liability of local downstate public safety pension plans through the end of fiscal 2020 topped $13 billion, according to Illinois Department of Insurance data.

The upcoming ruling may slow or even halt consolidation. The 2019 law set up one bigger fund for police officers and another for firefighters to take over the management and investment of the combined assets, but left control over benefits and contributions with the local boards.

So far, however, the new Illinois Police Officers’ Pension Investment Fund hasn’t received any assets and expects to begin getting funds around March, said executive director Richard White. About 44% of the 357 downstate and suburban police funds that were supposed to be merged into the bigger pension plan haven’t even responded to requests for information, White said.

The Firefighters’ Pension Investment Fund has received about $2.2 billion in assets but about a quarter of would-be participants in the early tranches are not complying, said executive director William Atwood. The transfers are complicated and take time, Atwood said.

The Illinois Municipal League, which advocated for the consolidation for a decade before the law was enacted, “is confident in the legality and validity of the act, and we see no reason why the suit will render any ultimate decision from the courts otherwise,” executive director Brad Cole said in an email. The two consolidated funds should be able to meet the June deadline, said Cole, who serves on the board of both but is commenting on behalf of the league.

“We are already showing savings and increased earning ability, proving the benefit that was predicted and is needed by this consolidation,” Cole said.

A Relief?

Some local governments are relieved to see their plans consolidated.

Police and fire pension costs for DeKalb, Illinois, use up about 20% of general fund revenue, up from 10% in 2014, city manager Bill Nicklas said in an interview. The entire property tax levy for the city’s proposed 2022 budget will go toward the two pension funds and some more revenue from sales taxes may be tapped for the retirement system payments, he said.

“Of the options that are out there, consolidation seems to be a good place to begin,” Nicklas said.

But underscoring how difficult this shift is, the DeKalb Police Pension Fund doesn’t agree with city officials and is listed as one of the plaintiffs in the lawsuit.

“I don’t think many of us trust the government of Illinois to handle our money given their history,” said Jim Kayes, president of the DeKalb Police Pension Fund board, in an interview.

Constitutional Rights

The lawsuit claims that the law takes away the plaintiffs’ local authority and “diminishes and impairs the pension benefits” to which they are entitled. Illinois’ constitution bans any reduction in worker retirement benefits.

In passing the law, “the Governor and General Assembly have acted in dereliction of their duties to uphold the Illinois Constitution,” according to the complaint. “Plaintiffs must therefore turn to this Court to protect their rights and pensions they have earned, invested, and managed.”

The state said in a filing in reply that Illinois’s constitution protects the payments that retirees are entitled to, but that doesn’t extend to areas like choosing the entity that manages the retirement plan.

Even amid the uncertainty that’s resulting in a slowing of the process, the consolidated funds are continuing to move forward to meet the statutory requirement, according to their executive directors. The Illinois Police Officers’ Pension Investment Fund is increasing its outreach to improve compliance and will respond as needed once the court rules, Executive Director White said.

“We will be in very good shape. There will be certain outliers that didn’t quite make it,” said Atwood from the consolidated fire fund. “It’s not going to be for a lack of trying on our part.”

Bloomberg Politics

By Shruti Singh

December 2, 2021, 9:26 AM PST Updated on December 2, 2021, 12:25 PM PST

California Scheming.

Luxury apartment or essential housing? How America’s most notorious junk municipal bond peddlers are getting rich off California’s affordability crisis.

Among California real estate developers, Jordan Moss has an exceptionally big heart. His Marin County firm, Catalyst, is dedicated to developing affordable housing—no small challenge in a state in which small one-bedroom apartments routinely lease for more than $3,000 a month and rents can climb at double-digit rates annually.

“I quickly came to the conclusion that I don’t have the temperament for that business, when you’re waiting years and years to find out if you’re going to get an allocation of [low-income housing tax] credits and bonds, and all the other things needed to make that sausage,” says Moss, a former UC Davis basketball player.

But in 2019, he partnered with a group of municipal-bond wizards and has since acquired 14 fully occupied luxury apartment buildings in some of California's most expensive Zip codes—places like Sausalito, Larkspur and Huntington Beach. Even better, because he promises to turn these buildings into so-called "essential" or "workforce" housing, his deals were 100% financed by $2.5 billion in tax-exempt municipal bonds, mostly courtesy of a little-known governmental entity he helped create: the California Community Housing Agency (CalCHA).

Continue reading.

Forbes

by Matt Schifrin with Isabel Contreras and Rachel Sandler

Dec 2, 2021

CCCFA Issues California's First Municipal Clean Energy Project Revenue Bonds Worth over $2 Billion

The bonds will support community clean energy goals across the counties of Alameda, Contra Costa, Marin, Napa, San Joaquin, Santa Clara, and Solano

OAKLAND, Calif. and SAN RAFAEL, Calif. and SUNNYVALE, Calif., Dec. 6, 2021 /PRNewswire/ — Three Community Choice Aggregators (CCAs) – East Bay Community Energy, MCE, and Silicon Valley Clean Energy – have issued California's first ever municipal non-recourse Clean Energy Project Revenue Bonds through the California Community Choice Financing Authority (CCCFA). Two separate bond issuances, valued at over $2 billion for thirty-year terms, support the purchase of clean electricity to serve over 2.5 million residents and businesses across the Bay Area and Central Valley.

The two Clean Energy Project Revenue Bonds prepay for the purchase of over 450 megawatts of clean electricity – enough to power 163,000 homes and reduce 765,000 metric tons of greenhouse gas emissions annually. These transactions will reduce renewable power costs by almost $7 million annually for the first 5-10 years. For decades, municipal utilities have used the prepayment structure as an industry standard practice to reduce costs for the purchase of natural gas. For the first time, these Revenue Bonds apply this structure to the purchase of clean electricity.

"CCAs are known for being innovative and nimble in our efforts to provide our community with electricity from cost-effective, clean sources," said Girish Balachandran, CEO of Silicon Valley Clean Energy. "For SV Clean Energy, we are working to advance innovative decarbonization solutions across sectors, and in this case, we have applied a new approach to how we finance our clean power projects, furthering the financial savings enjoyed by our customers."

A Clean Energy Project Revenue Bond is a form of wholesale electricity prepayment that requires three key parties: a tax-exempt public electricity supplier (the CCA), a taxable energy supplier, and a municipal bond issuer. The three parties enter into long-term power supply agreements for zero-emission clean electricity sources like solar, wind, geothermal, and hydropower. The municipal bond issuer – in this case, CCCFA – issues tax-exempt bonds to fund a prepayment of energy that is to be delivered over thirty years. The energy supplier utilizes the bond funds and provides a discount to the CCA on the power purchases based on the difference between the taxable and tax-exempt rates. This discount is historically in the range of 8-12%, and minimum discounts are negotiated for each transaction.

The first of these bonds, which was issued by CCCFA to the benefit of East Bay Community Energy and Silicon Valley Clean Energy, was underwritten by Morgan Stanley. It successfully generated nearly $1.5 billion in proceeds, after having received an investment grade “A1” rating from Moody’s and a “Green Climate Bond” designation from Kestrel Verifiers, making it the largest ever issuance of prepayment bonds for clean electricity.

“These two prepay transactions are a fantastic representation of CCAs’ position at the leading edge of the clean energy transition,” said Nick Chaset, CEO of East Bay Community Energy and Chair of CCCFA. “While it took a lot of time and attention to apply the structure to electricity, issuing these green bonds exemplifies the commitment and competitive edge we bring as an industry. By leveraging a decades-old process available for natural gas procurement savings and making it work for clean electricity, we’re picking it up and repurposing it to meet the needs of today.”

The second transaction, issued by CCCFA to the benefit of MCE, was underwritten by Goldman Sachs. The very successful bond sale produced approximately $700 million in bond proceeds and generated significant investor demand. The issue received an investment grade “A2” rating from Moody’s Investors and a “Green Climate Bond” designation from Kestrel Verifiers.

“MCE began exploring prepayment bonds three years ago as a pathway to reduce the cost of our renewable energy portfolio,” said Dawn Weisz, CEO of MCE. “This transaction will help us deliver on our promise of cleaner power, community reinvestment and competitive rates. We are pleased to pass these cost savings on to our customers.”

About CCCFA: The California Community Choice Financing Authority (CCCFA) was established in 2021 with the goal to reduce the cost of power purchases for member community choice aggregators (CCAs) through pre-payment structures. The founding members of CCCFA include Central Coast Community Energy, East Bay Community Energy, MCE, and Silicon Valley Clean Energy. CCCFA is a Joint Powers Authority which can help member CCAs save up to 10% or more on power purchase agreements, helping reduce costs for ratepayers and increase available funding for local programs. Learn more at CCCFA.org.

About EBCE: EBCE is a not-for-profit public agency that operates a Community Choice Energy program for Alameda County and fourteen incorporated cities, serving more than 1.7 million residential and commercial customers. EBCE initiated service in June 2018 and expanded to the cities of Pleasanton, Newark, and Tracy in San Joaquin County in April 2021. As one of 19 community choice aggregation (CCA) programs operating in California, EBCE is part of the movement to expedite the climate action goals of their communities and those of California. EBCE is committed to providing clean power at competitive rates while reinvesting in its local communities. For more information about East Bay Community Energy, visit ebce.org.

About MCE: As California’s first Community Choice Aggregation Program, MCE is a groundbreaking, not-for-profit, public agency that has been setting the standard for energy innovation in our communities since 2010. MCE offers renewable power at stable rates, significantly reducing energy-related greenhouse emissions and enabling millions of dollars of reinvestment in local energy programs. MCE is a load-serving entity supporting a 1,200 MW peak load. MCE provides electricity service and innovative programs to more than 540,000 customer accounts and more than one million residents and businesses in 37 member communities across four Bay Area counties: Contra Costa, Marin, Napa, and Solano. For more information about MCE, visit *mceCleanEnergy.org.*

About SV Clean Energy: Silicon Valley Clean Energy is a not-for-profit, community-owned agency providing clean electricity from renewable and carbon-free sources to more than 270,000 residential and commercial customers in 13 Santa Clara County jurisdictions. As a public agency, net revenues are returned to the community to keep rates competitive and promote clean energy programs. Silicon Valley Clean Energy is advancing innovative solutions to fight climate change by decarbonizing the grid, transportation, and buildings. For more information about Silicon Valley Clean Energy visit svcleanenergy.org.

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Puerto Rico's Bankruptcy Exit Likely Pushed Out to 2022.

• Judge Swain gives U.S. DOJ until Jan. 7 to defend Promesa law
• Commonwealth at risk of increases in retirement expenses

Puerto Rico creditors hoping the commonwealth exits its more than four-year bankruptcy in 2021 will need to wait a bit longer as the U.S. Department of Justice may weigh in on the process.

U.S. District Court Judge Laura Taylor Swain is reviewing Puerto Rico's plan to restructure $33 billion of debt, including $22 billion of bonds, after finishing closing arguments Tuesday on the debt adjustment plan. The hearings ended after hurricanes, earthquakes, political upheaval and the coronavirus pandemic postponed the bankruptcy process for years.

Swain is likely to wait until next year to issue her ruling because on Monday she gave U.S. government lawyers until Jan. 7 to decide whether to get involved in defending the constitutionality of the federal law, called Promesa, that allows Puerto Rico to reduce its obligations through bankruptcy.

"It is a little frustrating it's been pushed out," Daniel Solender, head of municipals at Lord Abbett & Co., said about the delay. "It's already been a pretty long wait. You want this to get completed. It's been going on for so long and everyone's just ready for it to be over."

Even with the potential delay, prices on some Puerto Rico general obligations remained in line with recent trading levels. A G.O. with an 8% coupon and maturing in 2035 changed hands Tuesday in a $2 million-size trade at 88 cents on the dollar, up from 87.75 cents on Nov. 15, the last time there was a trade of at least $1 million, according to data compiled by Bloomberg.

Puerto Rico's bankruptcy began in May 2017. It's the largest municipal workout, surpassing Detroit's 2013 bankruptcy. Bondholders haven't been paid since 2016 and as long as the island remains in bankruptcy, its residents live under a cloud of default.

Swain mentioned the people of Puerto Rico in her final statements before ending Tuesday's hearing, saying thousands of residents have shared to the court how the bankruptcy has affected their lives.

"As I make my legal decisions, I will always be mindful of the reality of your lives and the future of your homeland," Swain said.

That homeland has a financial monitor, however. A federally-appointed oversight board weighs in on Puerto Rico's budgets in addition to managing its bankruptcy. Even if Swain approves the debt plan, the oversight board will continue to oversee the island's finances until the commonwealth has implemented balanced budgets in four consecutive years.

To help control spending, the board wants to freeze the pensions of teachers and judges, move them to a defined contribution plan and end cost of living adjustments, which Swain said she will rule on. Additionally, the board is seeking court approval to prohibit island lawmakers from increasing retirement benefits for public workers.

Yet, even if the court sides with the board on these issues, Puerto Rico lawmakers will almost surely pass additional future pension laws anyway, Matt Fabian, a partner at research firm Municipal Market Analytics, wrote in a report Monday.

Investors will need to consider added pension costs as long-term payouts may be slower and more volatile than what the debt restructuring plan offers, according to Fabian.

"Once the board has left the island, there will be few actors left with a funded interest in stopping the government from doing as it chooses," Fabian wrote.

Bloomberg Markets

By Michelle Kaske

November 23, 2021

— With assistance by Steven Church

S&P State Brief: Iowa

View the Brief.

16 Nov, 2021

JPMorgan Removed from Louisiana Muni Deal After Gun Scrutiny.

- **State bond panel votes to replace bank on $700 million issue**
- **Commission names Wells Fargo as senior manager on bond offer**

JPMorgan Chase & Co. was removed on Thursday from a $700 million Louisiana municipal-bond deal after the bank's stance on guns drew criticism from state Republican officials.

After a fiery meeting, the state bond commission voted to have Wells Fargo & Co. replace JPMorgan, the largest U.S. bank, as senior manager on the deal.

The decision came after state Treasurer John Schroder, a Republican, said his team was scrutinizing JPMorgan's gun policies following Chief Executive Officer Jamie Dimon's comments to a Congressional committee earlier this year that his firm won't finance companies that make military-style weapons for consumers.

"I'm not selling our Second Amendment rights to corporate America," Schroder, the panel's chair, said at the meeting in Baton Rouge.

In 2019, Louisiana began asking banks whether they have policies that infringe on citizens' rights to bear arms as part of the firms' application to underwrite bond deals. At the time, JPMorgan said it didn't.

But in advance of this bond sale, Schroder said his office asked banks in the underwriting pool whether they finance the manufacture of certain weapons for civilian use.

JPMorgan didn't submit an answer to that query, and that lack of response led to their disqualification from underwriting the sale, Schroder said. A JPMorgan spokesperson didn't have an immediate comment after the vote Thursday. Allison Chin-Leong, a spokesperson for Wells Fargo, declined to comment.

Originally, JPMorgan was chosen to underwrite the bonds after offering a lower fee than other banks, but now Wells Fargo will match that fee, Lela Folse, director of the bond commission, said during the meeting Thursday.

Matthew Block, executive counsel for Governor John Bel Edwards, a Democrat, questioned the process around disqualifying the bank.

"This is a road, and it leads us to someplace that none of us know where we're going," he said during the meeting, noting the state has already stopped hiring Bank of America Corp. and Citigroup Inc. to underwrite bond sales over gun issues. Block said other banks would offer less competitive borrowing terms as a result.

'Telling the World'

"We are telling the world — not just Louisiana, not just New York — the world, that three of the biggest banks to loan us money at a good rate of interest, we don't want to do business with them," he said.

In addition to Wells Fargo's involvement in the sale of the gas and fuel-tax bonds, Morgan Stanley, UBS Group AG, Loop Capital Markets and Blaylock Van are co-managers. Proceeds will go to refinancing existing debt.

JPMorgan is also facing a hit to its public-finance business in neighboring Texas because of a GOP law that seeks to punish Wall Street banks for wading into social issues. In September, a law went into effect there that bars state and local governments from hiring banks that moved to curtail ties to the firearms industry in the wake of mass shootings.

Bank of America, Citigroup and Goldman Sachs Group Inc. also saw their muni business halted in Texas because of the law.

Louisiana lawmakers passed similar legislation this year that would have barred the state and local governments from engaging in public contracts with firms that have "discriminatory practices" with firearm associations, retailers and manufacturers. But Governor John Bel Edwards, a Democrat, vetoed the bill, saying it would cost taxpayers money.

Schroder said he was considering the intent of the legislature when it came to the decision to remove JPMorgan.

Louisiana is a much smaller market for muni deals than Texas. The state sold about $881 million of bonds last year, while Texas issuers including local governments and state agencies sold about $58 billion, data compiled by Bloomberg show.

The Texas law covers a wide swath of municipal borrowers. Still, Citigroup has moved to restart its underwriting there, raising questions about the measure's effectiveness. On Wednesday, the bank won a Texas bond deal sold through an auction, its first deal since the state legislation went into effect Sept. 1.

Bloomberg Markets

By Amanda Albright and Danielle Moran

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Citigroup Wins First Texas Muni-Bond Deal Since Gun Law Spat.

- **Bank wins auction for a $27 million sale by a school district**
- **Company hasn't participated in Texas muni market since August**

Citigroup Inc. won a municipal-bond deal in Texas on Wednesday, marking its potential re-entry into a booming corner of the municipal-debt market after a new Republican state law sought to punish Wall Street banks for their gun policies.

The bank won an auction for a $27 million bond offering sold by the Alamo Heights Independent School District, data compiled by Bloomberg show. It stands to be the firm's first muni deal in Texas since late August. The pause in underwriting there came after the law went into effect on Sept. 1, barring governments in the state from working with companies that "discriminate" against firearm businesses or trade groups.

Before the deal becomes final, Citigroup needs the office of the state's attorney general, Republican Ken Paxton, to sign off on the transaction, a step required on public debt sales in Texas. The office didn't respond to an email and phone call requesting comment.

Citigroup bid a net interest cost of 0.68%, according to a list of bidders provided by the district. The next lowest bidder was BOK Financial Securities, which offered 0.73%. Mike Hagar, assistant superintendent of business and finance for the district, confirmed that Citigroup won the deal. A spokesperson for the bank declined to comment.

"We feel confident with Citigroup and that the AG office will approve the sale," Hagar said in an email.

After being ranked the biggest underwriter of Texas munis from 2018 to 2020, New York-based Citigroup has dropped to eighth place this year, data compiled by Bloomberg show. Bank of America Corp., JPMorgan Chase & Co. and Goldman Sachs Group Inc. also haven't underwritten muni bonds sold by the state and its cities, schools, and transit agencies since the legislation took effect.

Citigroup has said repeatedly that it could comply with the law, known as Senate Bill 19, and that it was temporarily pulling back as it worked through the certification process now required under the legislation.

The law targeted banks like Citigroup, which in 2018 said it would forbid retailers that are its customers from offering bump stocks or selling guns to anyone who hasn't passed a background check or is younger than 21.

The state's surging population has driven debt sales for infrastructure, making it a key market for municipal underwriters. In 2020, Texas borrowers sold about $58 billion of debt, trailing only those in California.

In October, Citigroup sent a letter to the state attorney general's office that confirmed it does not have a "practice, policy, guidance, or directive" that discriminates against a firearm entity or trade association. Then, on Nov. 9, the firm said in a statement it was ready to restart underwriting in Texas.

Bloomberg Markets

By Danielle Moran and Amanda Albright

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[Citi's Texas Strategy Hinges on Rainmaker Who Made Bank No. 1 Underwriter.]

- **Bank to lean on Mario Carrasco, lead muni banker for southwest**
- **Top Texas muni underwriter from 2018-2020, Citi is now eighth**

A key Citigroup Inc. rainmaker in Texas is faced with reviving the bank's public-finance business there after GOP officials sought to punish the firm for its gun policies, triggering an unprecedented pullback from underwriting in a fast-growing state.

Mario Carrasco, head of public finance for Citigroup in the Southwest, helped make the bank the biggest municipal underwriter in Texas the past three years. Now, with the company saying it's ready to resume the operations after a two-month halt, he's tasked with recapturing market share in one of the hottest corners of the nation's $4 trillion muni-bond market.

It was Carrasco, a Citigroup veteran of more than a decade, who expressed concern back in April to at least one big issuer, San Antonio, about an early version of Senate Bill 19 that was working its way through the Republican-led legislature, public records obtained by Bloomberg show.

The measure, which evolved and became law in June and took effect Sept. 1, bars governmental entities in the state from working with companies that "discriminate" against the firearms industry. It upended the operations of Citigroup and some of its biggest Wall Street rivals, which had introduced new gun policies in the wake of U.S. mass shootings.

"We do appreciate your understanding and patience as Citi Texas navigates our current legislative issues," Carrasco told issuers via email on Sept. 27.

Now it looks like Carrasco and his Texas colleagues — a squad of roughly nine bankers and analysts — can get back to work in the state.

Citigroup said Nov. 9 that it's prepared to restart its Texas public-finance business after working through a certification process under the new law.

The bank has had conversations with state officials as part of that process and is confident it's able to resume deals soon, according to a person familiar with the matter who asked not to be named as the conversations aren't public.

Citigroup, the second-largest underwriter of munis nationwide, has made no substantive changes to its gun policy in response to the Texas law. The bank has said for months that it can comply with the legislation.

The bank has some ground to make up. After being ranked the biggest underwriter of Texas munis from 2018-2020, New York-based Citigroup has dropped to eighth place this year, data compiled by Bloomberg show. Bank of America Corp., JPMorgan Chase & Co. and Goldman Sachs Group Inc. also haven't underwritten munis sold by the state and its cities, schools, and transit agencies since the legislation took effect.

Citigroup's latest step may mark the beginning of the end of a months-long saga where the normally placid muni market became the latest battleground for the nation's culture wars. This year's standoff came after the bank said in 2018 that it would forbid retailers that are its customers from offering bump stocks or selling guns to anyone who hasn't passed a background check or is younger than 21.

Banking Relationships

For Citigroup to regain its foothold, Carrasco and his colleagues will have to lean on the relationships they've spent their careers building.

A lifelong resident of San Antonio, Carrasco graduated from St. Mary's University in the city in 1998. He joined Citigroup in 2010 after working at firms including Stifel Financial Corp., and has been head of public finance in the Southwest since 2015.

Citigroup declined to make Carrasco available for an interview or to comment further.

At an industry conference in San Antonio last month, several bankers described Carrasco as a central figure in Texas's muni-finance community. In 2019, he led the board of trustees for the Municipal Advisory Council of Texas, which tracks market data and hosts events.

Despite the fallout from the new law, he and his colleagues still attended the San Antonio conference and mingled at the event, for which Citigroup was a sponsor.

Losing access to the Texas market would be a blow for any muni banker. The state's surging population has driven debt sales for infrastructure. In 2020, Texas borrowers sold about $58 billion of debt, trailing only those in California.

Final Approval

Of course, nothing is certain until the Texas attorney general, Republican Ken Paxton, makes it clear he won't block Citigroup's deals. The office hasn't responded to multiple requests for comment.

Paxton's office reviews and signs off on public debt sales in Texas. That presents a potential scenario where, if the office rejects a deal, debt that has already been priced wouldn't close, investors wouldn't receive their bonds and the issuer would have to re-offer the debt. The bank could test the waters by bidding on deals sold via auction, rather than having an issuer hire it before the sale.

Several issuers say they welcome Citigroup's return, signaling they expect it to be able to resume underwriting.

Texas Comptroller Glenn Hegar, a Republican who oversees the state's finances and is a member of its bond review board, said he was glad to see the bank had made the proper certifications.

"I am pleased that Citigroup has certified that they are able to comply with Texas law and will resume underwriting bonds in one of the fastest growing and dynamic markets in the nation," he said in an emailed statement.

Reaching Out

Last week, Citigroup bankers in Texas were already reaching out to clients.

Elizabeth Reich, Dallas's chief financial officer, said she was "pleased" by the news from the bank.

"It is in the taxpayers' and residents' best interests that we have as many potential partners as possible when we are financing needed infrastructure for the City of Dallas," she said via email.

And Bill Bilyeu, administrator for Collin County, part of the Dallas metropolitan area, said the county would be willing to work with Citigroup again and that he heard from Carrasco last week.

"We very much appreciate your patience with this important matter and look forward to continuing to serve the clients of Texas, as we have in the past," Carrasco said via email.

Bloomberg Markets

By Amanda Albright and Danielle Moran

November 15, 2021, 8:30 AM PST

Illinois Local Governments Offer Steady Stream of Pension Bonds.

The wave of local Illinois governments turning to pension obligation bonds shows no signs of abating and could accelerate amid concern that the window is closing on record low interest rates.

Wheaton sold $46 million last month. Berwyn is eyeing an issue and Moline plans to follow its neighbor East Moline into the market.

They continue a trend that made Illinois the third largest source of POB issuance, behind California and Arizona, among local governments rated by S&P Global Ratings from the start of 2020 through September 2021.

"Pension and other postemployment benefit obligation bond issuance is accelerating in the U.S." spurred by a favorable interest-rate environment and local government efforts to control rising contributions, S&P said in an October report.

“We expect continued issuance accelerations as issuers compare peers’ seemingly successful transactions with their own large and growing unfunded liabilities, and some issuers might anticipate the end of record low interest rates” as the Federal Reserve considers tapering asset purchases and raising the federal funds rate, S&P said.

Factors unique to Illinois contribute to the allure of pension borrowing there. The state and many of its local governments fell behind on pension funding over years of contributions built into state law based on schedules tied to factors like employee contributions that fell short of an actuarial level.

One anti-POB argument – that it creates a hard debt service liability from a softer pension obligation with some payment flexibility – is less persuasive in Illinois where the state constitution protects promised retiree benefits against impairment or diminishment and the state’s high court has ruled against Chicago and Illinois’ efforts to cut benefits.

“Many here have come to believe that pensions are a hard liability because of the constitutional mandate and so that can offer a better argument to borrow if the pension cost is already considered a hard liability,” said Richard Ciccarone, president of Merritt Research Services.

State law also now allows for most pension funds to intercept tax revenues or grants that flow through the state if local governments fall short of actuarially-based contributions. Ciccarone cautions that a hard default on bond payment can carry more serious consequences for a borrower than falling short on pension contributions.

POBs draw varying opinions from market participants.

The Government Finance Officers Associations recommends against their use because of the risks that the play on arbitrage between debt service on the bonds and investment earnings on the proceeds will pay off.

Ciccarone is among those that believe POBs can play a role in managing a balance sheet but only in the presence of some type of reform, whether it’s on the benefit or payment side, and even then cautions that risks remain.

“I don’t take that hard core line against them if they are done for the right reasons and they serve as a mechanism for reform that helps the long term health of the borrower,” Ciccarone said. “The key question is whether they can afford and stomach the debt service because there is still risk,” especially for governments with a limited economic base that lacks growth.

Pension burdens weigh heavily on the ratings of Chicago, the state government and some other struggling local governments due to a flawed funding system and legislative action to date has made little headway in solving the quagmire, S&P Global Ratings warned in an August report.

Downstate and suburban public safety funds carried $11 billion of unfunded liabilities in 2017 – up from $10 billion a year earlier – with an average funded ratio of just 55%, according to a 2019 report from the Illinois Department of Insurance.

The state government’s unfunded liabilities rose to a peak $141 billion last year for a 40.4% funded ratio and Chicago carries a $33 billion tab with its firefighters fund 18.97% funded, its police fund 22.21%, the municipal fund at 22.96% and laborers at 44.42%.

The par of pension-related borrowing issued this year has reached around $11.2 billion, said Lisa Washburn, chief credit officer at Municipal Market Analytics. Illinois ranks 4th in terms of par issued and 3rd in number of issuers.

Washburn, who believes municipal governments should avoid POB risks, cautioned that the data from Bloomberg includes a broader range of pension financings, such as Illinois? $850 million issue which earmarked just a portion for a pension buyout program.

Most Illinois-based POB borrowers are paying down their public safety pension plans to meet a state mandate for public safety funds to reach a 90% funded ratio by 2040. If local governments outside Chicago don’t make an actuarial payment, pension funds for the last several years have enjoyed the ability to file claims to intercept various tax or grant revenues that flow through the state.

Actuarial contributions have long been required for the Illinois Municipal Retirement Fund which covers general employees outside Chicago and Cook County, and it is 91% funded.

The Illinois Public Pension Fund Association, which represents public safety funds, last year encouraged local government leaders and fund managers to explore the POB option. It lays out the benefits and risks last year in an “informational bulletin.”

Many of the Illinois-based local governments issuing POBs are near or fully funding their public safety obligations or setting aside proceeds into a special account to manage the strain of rising contributions on their budgets.

The impact of ratings varies depending on a POB deal’s structure, the overall impact on a borrower?s balance sheet and whether the added debt service limits budget flexibility, and its underlying fiscal health.

“Key credit risks, while unique to each U.S. public finance issuer, primarily include market returns falling short of expectations and pension contribution increases pressuring budgets,” S&P analyst Todd Kanaster said in the agency’s October report.

S&P rated 64 new POB issuances totaling nearly $6.3 billion between January and September 15. That more than doubles rated POB issuance over the $3 billion issued in all of last year.

S&P has observed some changes with the fresh run of borrowing. Some are veering from tradition in using non-GO pledges and more school and park districts are using the tool. Some borrowers also are setting aside some proceeds to mitigate future budget stress.

All of those factors been seen among Illinois-based POB issuance. So far this year, S&P has rated at least six Illinois POBs.

The Addison Fire Protection District, the Bensenville Fire Protection District No. 2, DuQuoin, Elmwood Park and Wheaton all paid down police and firefighter obligations and Geneseo paid down police obligations.

Wheaton held on to its AAA rating and stable outlook from S&P when it sold $46 million of taxable GOs to fully fund its police and firefighter pension plans in a deal underwritten by Stifel and Piper Sandler (PIPR). Baird was advisor.

“The rating reflects our view of such factors as the city’s very strong economy, management, budgetary flexibility, and liquidity, and its strong budgetary performance,” said analyst Katelyn Kerley.

The Chicago suburb used the proceeds to pay down public safety liabilities with plans to make 12 equal monthly installments to mitigate market timing investment risks and proceeds also established a budget reserve that can be used to pay down liabilities.

Berwyn and Moline are teeing up deals.

S&P put Berwyn's BBB GO rating and A-minus securitization corporation ratings on CreditWatch Developing as it assesses the proposed borrowing's impact. Berwyn would also include a debt restructuring in the deal. The placement indicates there's at least a one-in-two likelihood of a rating change within 90 days, S&P analyst Blake Yocom said in the Sept. 30 report. The review continues, Yocom said this week. COVID-19 pandemic related pressures prompted S&P to revise the Chicago suburb?s outlook to negative in June 2020.

Moody's Investors Service affirmed at A1 the city of Moline which plans a $90 million taxable GO issue.

Moline's borrowing to pay down its public safety tab along with a $3.2 million series for its aquatic center will bring its debt to $120 million.

"The city intends to limit the required increase in future pension contributions with the issuance of pension obligation bonds, though this strategy detracts from the city's overall credit quality by heightening its exposure to potential investment losses," Moody's said.

East Moline suffered a two-notch downgrade from Moody?s in September that left its rating at Baa2 as it prepped a $41 million POB issue. Moody's (MCO) raised concerns over the risky strategy but said the borrowing itself didn't drive the downgrade. Moody's attributed its action to the sum of the city's bonded, pension, and other post-employment benefits burdens.

Baird was underwriter and Speer Financial advised the city. In addition to a GO pledge, the bonds were secured by tax receipts levied for police and fire pensions and corporate purposes, distributions of personal property replacement taxes and sales taxes collections distributed by the state.

Bradley in Kankakee County earlier this year sold $11.9 million to cover its police unfunded liabilities and raise the funded ratio of 61% and fund a budget stabilization fund. The village used higher-than-expected revenues to fully fund its firefighters' fund.

Freeport in 2020 sold $52.7 million of taxable GOs to fully fund its police and firefighter funds that combined were less than 45% funded. The bonds carried insurance from Build America Mutual.

Baird according to its website served as the sole underwriter on Freeport's deal along with the city McHenry's $24.3 million POB deal in 2020. So far this year it has been senior manager on Addison Fire Protection District?s $33.8 million deal and sole manager on East Moline's deal.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 11/16/21 01:44 PM EST

Nuveen Says Fortress-Backed Luxury Rail Has Path to High-Grade Rating.

- **Speculative venture seeks another $1 billion of tax-free bonds**
- **County fees may give Brightline access to larger buyer base**

A planned bond sale financing a speculative luxury train line in Florida can probably win investment-grade credit ratings, according to Nuveen Asset Management, the biggest holder of the project's debt.

Brightline Holdings, the train company backed by Fortress Investment Group, hopes to sell another $1 billion of tax-free bonds in the coming weeks to help pay for additions that can help the company profit from pandemic-linked migration to Florida. Brightline has previously sold $2.7 billion of tax-free securities that were unrated.

Florida counties would hand over fees to Brightline to add commuter service to its system, payments that would back the bonds. That revenue pledge should help the securities gain investment-grade ratings, said Ryan Rosberg, senior research analyst at Nuveen.

High-grade ratings can draw in a much broader array of investors than unrated securities attract. Muni-bond holders, often retirees looking for tax-free income, tend to crave safety, and the majority of the $4 trillion municipal-bond universe is ranked investment grade.

“An investment-grade rating clearly improves the liquidity and broadens the buyer base for these bonds,” said Terry Goode, a senior portfolio manager at Allspring Global Investments, which doesn’t hold any of the existing debt.

Asked about the rating potential, Brightline spokesperson Ben Porritt said, “it’s our position not to speak publicly about financing plans as we formulate the details.” Spokespeople for Moody’s Investors Service, S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency didn’t answer queries on whether Brightline had approached them for grades.

The country’s first new privately financed intercity passenger rail line in a century was launched in 2018 along Florida’s east coast. Service resumed on Monday between Miami and West Palm Beach after stopping in March 2020 for the pandemic. A train hit a car carrying a woman and her grandchild on the first day, according to the Associated Press. The woman suffered broken bones while the boy didn’t appear to be seriously injured, the report said.

When fully built, the system will cost $6 billion. For round trips on Tuesday, Brightline was charging $15 for seating in standard railcars and $37 for service that includes free drinks and lounge access.

The system’s ridership and revenue fell short of estimates even before the onset of the Covid-19 outbreak. The company expects 2.89 million total passengers in 2022, and 9.5 million in 2023, which is due to be the first full year with service to Orlando.

On Thursday, Brightline Chief Executive Officer Michael Reininger said proceeds from the new bond sale would primarily go toward work on its existing line between Miami and West Palm Beach, and the expansion already underway of service to Orlando. Fees that Miami-Dade and Broward counties would pay to establish new commuter rail service along the Brightline corridor “have tremendous value,” he said.

In documents posted for bond holders, the company said that for helping offer commuter service, it expects to receive as much as $50 million upfront, and then annual payments starting at $12 million from Miami-Dade County. It hasn’t revealed estimates of the financial benefits from a Broward partnership.

The alliance with both counties is a positive, Nuveen’s Rosberg said, adding that his firm’s interest in the new debt will depend on relative value at the time of issuance.

A Brightline bond due in 2049 traded Nov. 5 at an average yield of 6.1%, unchanged from trading the previous week and lower than a high of 7.75% in January, according to data compiled by

Bloomberg.

Bloomberg Markets

By Romy Varghese

November 9, 2021, 8:15 AM PST

Citi Says Ready to Resume Texas Muni Business After Gun Spat.

- **Halted deals after law sought to bar banks for gun policies**
- **Bank is ‘prepared to resume serving issuer clients in Texas’**

Citigroup Inc. says it’s prepared to restart its public-finance business in Texas after halting the operations in the wake of a new Republican law in the state that sought to bar it and other banks from such work as punishment for restrictive gun policies.

The lender says it’s ready to once again underwrite new municipal-bond deals sold by Texas issuers, potentially marking a major win after it had to stop doing so in September. After being ranked as the biggest underwriter of Texas municipal debt in 2020, New York-based Citigroup has tumbled to eighth place this year.

The halt to its Texas public-finance business came after a state law went into effect that bars government entities from working with companies that “discriminate” against firearm entities or trade associations. The bank has made no substantive changes to its gun policy in response to the new law.

“We elected not to engage in primary market underwriting activity with public sector clients in Texas temporarily while we were working through the certification process, which included submitting a standing letter to the Office of the Attorney General,” the bank said in a statement Tuesday through a spokesperson.

“Having made the certifications required by the new law, we are now prepared to resume serving issuer clients in Texas,” the statement said.

The bank has had conversations with state officials as part of the certification process and is confident that it’s able to resume muni deals, according to a person familiar with the discussions who asked not to be named as the conversations aren’t public.

Resumption Seen Soon

The bank expects that it will be able to resume underwriting in Texas soon, the person said.

The Texas Attorney General’s office didn’t respond on Tuesday to email and phone messages seeking comment on Citi’s announcement.

The state’s law targeted Wall Street banks for wading into the debate over guns in the U.S. Bank of America Corp., JPMorgan Chase & Co. and Goldman Sachs Group Inc. also haven’t underwritten munis sold by the state and its cities, schools, and transit agencies since the legislation took effect. Bank of America and Citigroup are the top two underwriters in the $4 trillion U.S. municipal market.

Citigroup has repeatedly said it can comply with the legislation and that it doesn't discriminate against firearm entities. In June, the bank said in a blog post that its policy "simply requires our clients to use best practices when selling firearms."

The Lone Star State is a crucial market for muni business thanks to a growing population that drives infrastructure needs. Texas-based borrowers sold more than $58 billion of municipal debt in 2020, the most of any state after California, according to data compiled by Bloomberg.

In the wake of mass shootings in the U.S., Citigroup in 2018 said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven't passed a background check or are younger than 21.

The sponsor of the Texas law, Republican state Representative Giovanni Capriglione, has said that policies taken on by Citigroup were an example of the type of company policy that his legislation was targeting.

Citigroup took a key step to restart its public-finance operations in Texas by submitting a letter last month verifying its compliance with the new law.

The bank sent a so-called standing letter to the Texas Attorney General's office, a requirement for banks if they want to do business with Texas and its local governments after the legislation took effect.

Bloomberg Markets

By Amanda Albright

November 9, 2021, 10:03 AM PST Updated on November 9, 2021, 1:25 PM PST

— With assistance by Danielle Moran

Illinois Projects Surplus But Gaps Come Back Next Four Years.

- **Fiscal 2022 surplus at $418 million: governor's budget office**
- **Holes in next four years to be smaller than previous forecasts**

Illinois, which has seen a vast improvement in its financial outlook over the last year, expects a bigger surplus this fiscal year and smaller gaps in the next four annual budgets thanks to a quicker than expected recovery in revenues and billions in federal aid.

The state's fiscal 2022 budget surplus will be $418 million, up from an earlier estimate of $88 million, as revenue from sales and income taxes increased more than previously anticipated and after the state taps about $2 billion of its more than $8.3 billion in American Rescue Plan Act funding, according to a report Tuesday from the Governor's Office of Management and Budget. Deficits will return from fiscal 2023 through 2027 but will be smaller than previously expected, according to the report.

"I am committed to building on this significant progress while tackling our remaining fiscal challenges," Governor J.B. Pritzker said in a statement Tuesday. He added that he's focused on working with the Illinois General Assembly to build "long-term fiscal stability for Illinois while ensuring economic opportunity in all of our communities."

Pritzker's budget office is projecting a 2023 shortfall of $406 million, down from $2.9 billion estimated in 2019, and the 2024 deficit was cut to $820 million from $3.2 billion, according to the statement. The state's unpaid bills will drop below $2.75 billion by the end of fiscal year 2022 after topping $16 billion during the state's budget impasse a few years ago.

"It stands on its own how remarkably improved Illinois's budget situation is from all of 12 months ago," Ty Schoback, a senior municipal research analyst for Columbia Threadneedle Investments, which owns Illinois debt as part of $17 billion in muni assets, said in an interview.

Big Turnaround

In November 2020, Illinois was facing the threat of its debt being downgraded to junk after voters rejected a shift to a graduated income tax from a flat rate. Pritzker had championed the move as a way to increase revenue and address the state's structural deficits. At the time, Illinois was headed toward borrowing from the Federal Reserve's Municipal Liquidity Facility for a second time because its penalty for selling debt in the $4 trillion muni bond market surged during the pandemic.

Since then, the state's outlook has dramatically improved. In mid 2021, Illinois received upgrades from S&P Global Ratings and Moody's Investors Service, the first in more than 20 years, while Fitch Ratings boosted its outlook to positive from negative. The state has paid off at least $2.2 billion of the total $3.2 billion it borrowed from the Fed. The extra yield it pays on on its debt compared to 10-year benchmark AAA muni securities has fallen to about 70 basis points from around 300 a year ago.

Schoback gives the state credit for taking prudent steps to improve its credit profile, including reducing its backlog of unpaid bills and interfund borrowing for liquidity. The key for Illinois will be to address longer-term financial pressures, such as its pensions, and building up its rainy day fund in meaningful ways, he said. The state's unfunded pension liability has grown to around $144 billion.

In the report Tuesday, Illinois officials acknowledge that even with "a major sign of critical progress on state finances, and a significant improvement over previous projections for fiscal year 2022," the state has much work to do.

"They have the ability to continue to improve their credit profile and secure further upgrades, but they can't take their foot off the gas," Schoback said. "The market will be receptive to slow and steady, but that trajectory needs to continue."

Fitch Ratings is monitoring the state's progress to "unwind" steps taken during the pandemic such as the Fed loan and inter-fund borrowing, and "real progress" on such items would support an upgrade, said analyst Eric Kim.

The firm has assigned the state's debt a BBB- rating, one step above junk, but sees a positive trajectory given plans to pay down those liabilities and the continuation of "normal decision-making," he said.

An impasse between then Governor Bruce Rauner and state legislators left Illinois without a full budget for more than two years between 2015 and 2017.

"That tone has shifted and if we continue to see that progress where things work in a more normal way, that's a positive rating factor," Kim said in an interview.

Bloomberg Markets

By Shruti Singh

November 9, 2021, 3:09 PM PST Updated on November 10, 2021, 9:59 AM PST

Citi Takes Key Step to Restart Texas Muni Business.

- **Bank said to verify its compliance with new GOP gun law**
- **Citi is said to have sent letter to attorney general's office**

Citigroup Inc. is said to have taken a key step to restart its public finance business in Texas by submitting a letter verifying its compliance with a new state law seeking to punish banks that have taken on restrictive gun policies.

The bank sent a so-called standing letter to the Texas Attorney General's office in October, according to a person familiar with the matter. It is still in conversations with state officials and is not imminently reviving underwriting there, said the person, who declined to be identified because the exchanges are not public.

Such a letter is a requirement for banks if they want to do business with Texas and its local governments after the GOP legislation went into effect Sept. 1.

In order for bond underwriters to work on deals, Assistant Attorney General Leslie Brock said in a Sept. 22 letter to bond counsels that it would require companies to submit a letter verifying that they do not have a practice or policy that "discriminates" against a firearm entity or trade association.

Since the law went into effect, Citigroup hasn't underwritten any Texas municipal-bond sales. The bank has previously said it believes it can comply with the law but has temporarily pulled back as it works through the certification process. Bank of America Corp. and JPMorgan Chase & Co. have also seen their Texas muni business halt after the law.

Law firm Greenberg Traurig, which represents Citigroup, sent a Sept. 3 letter to Attorney General Ken Paxton, a Republican, and Brock, chief of the office's public finance division, to detail the bank's gun policies and explain why it complied with the law. It also warned that the law may violate the First Amendment.

"We are also concerned that Senate Bill 19 may impair First Amendment rights of freedom of speech, assembly, and association," Dale Wainwright, co-chair of Greenberg Traurig's national appeals and legal issues group and chair of the Texas appellate practice, wrote in the letter. "Barring engagements or refusing to approve a bond issuance when a company's contract verification is compliant with the statute may raise such concern."

The letter also touted the bank's history in Texas and its work on municipal-bond deals. Wainwright said the law's "potential repercussions are imminent and substantial." Bloomberg News received the letter on Thursday through a public records request.

The Texas Attorney General's office did not have an immediate comment.

'Unqualified Verification'

The law targeted banks like Citigroup, which in 2018 said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven't passed a background check or are younger than 21.

As part of SB19, companies have to provide written verification that they comply with the terms of the law. In its Sept. 3 letter, Citigroup proposed language that it could include in contracts verifying its compliance. The bank said its policy doesn't discriminate based on a business's status as a firearm entity, and instead discourages certain transactions based on "traditional business reasons."

However in her Sept. 22 letter to all bond counsel, Brock of the attorney general's office said banks should provide a letter making an "unqualified verification" that they comply and that they can't use language detailing what the company understands the law to require.

Citigroup noted in its September correspondence to the AG's office that it has been the leading bond underwriter in the state for the past three years and led the financing of $16.5 billion of bonds funding critical infrastructure from 2018 to 2020.

An appendix included with Wainwright's letter entitled "Citi's Positive Impact In Texas" noted the bank has 8,500 employees in Texas and that it made nearly $4 million in charitable and foundation gifts in the state in 2020.

"The many governmental entities with whom Citigroup is pleased to engage in municipal finance and bond business should not be precluded or otherwise discouraged from continuing or initiating a mutually-beneficial relationship," the September letter says.

Bloomberg Markets

By Amanda Albright

November 4, 2021, 1:44 PM PDT

Citi Tells Texas It Doesn't Discriminate Against Gun Companies.

Citigroup Inc.'s public finance heads told the Texas Attorney General's office in mid-October that they believe the bank could comply with a new Republican-backed law seeking to punish Wall Street banks that have enacted restrictive gun policies.

The bank sent a letter to the office confirming it does not have a "practice, policy, guidance, or directive" that discriminates against a firearm entity or trade association, according to the letter obtained by Bloomberg through a public records request. Such a letter is a requirement for banks if they want to underwrite bonds sold by Texas and its local governments after the legislation went into effect Sept. 1.

The letter was signed by Daniel Tomson and Paul Creedon, co-heads of Citigroup's public finance department. A spokesperson for the bank declined to comment.

"The Office of the Attorney General of Texas may rely on this letter in its review and approval of public securities under Texas law," the letter says. "Should a change occur that renders this letter ineffective, Citigroup, Inc. will notify the Public Finance Division promptly."

Bloomberg Markets

By Amanda Albright

November 5, 2021, 10:10 AM PDT

S&P: Texas Winter Storm Brought Downgrades And Spurred Response Among Public Power And Electric Cooperative Utilities

Key Takeaways

- Last February's storm disruptions of the Texas electricity and gas markets resulted in a significant number of negative rating actions for electric cooperatives and public power utilities.
- Credit deterioration largely stemmed from utilities' having to procure electricity or natural gas in significantly higher-than-usual quantities at extremely elevated prices for almost a week, which led to financial challenges.
- Despite legislative approval allowing securitization of "extraordinary costs" for wholesale purchases, and new Public Utility Commission rules requiring weatherization, uncertainty remains as to additional market reforms that will shield utilities and their customers from recurrences.
- Utilities and the regulator have yet to demonstrate the effectiveness of market reforms, including winterization measures.

Continue reading.

Fitch: Hurricane Ida Further Stalls Tepid Job Recovery in Louisiana

Fitch Ratings-New York-02 November 2021: Louisiana's tepid job recovery took another step back last month amid a stagnant September for broader national employment recovery, according to Fitch Ratings in its latest State Employment Tracker.

Its recovery numbers already well behind most other states, Louisiana's job recovery numbers fell by 10.4% month over month due to Hurricane Ida, a Category 4 storm that made landfall in late-August. 'Louisiana's recovery prior to Ida was already a slow 49% of pre-pandemic jobs prior to Ida with roughly 80% of job losses emanating from New Orleans, which bore the brunt of the storm and exacerbated an already bleak picture for the state,' said Senior Director Olu Sonola. However, Louisiana's September declines are largely temporary. High frequency Google mobility data suggests that New Orleans' recovery from Ida improved rapidly in subsequent weeks

Louisiana's performance belied a broader decline nationwide with national employment gains coming in at roughly 197,000 jobs added, a decrease from 366,000 in August and the lowest monthly employment gain since January 2021. Other states that saw declines, albeit more modest ones, were Idaho (5.5%) and Delaware (4.6%).

September had its bright spots with Oklahoma, Florida and Texas leading recoveries on a month-over-month basis increasing by 8%, 6.7% and 6.6% respectively. Texas and Florida are states to watch as they approach 100% recovery. As of September, Texas has recovered 92% of pandemic declines and Florida 84%.

Fitch's latest 'U.S. States Labor Markets Tracker' is available at www.fitchratings.com.

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Puerto Rico Oversight Board Files New Debt Plan.

The revised plan eliminates cuts to public-sector retiree benefits, but changes benefits for working teachers and judges

A federal board overseeing Puerto Rico's bankruptcy this week filed a new plan for restructuring the U.S. territory's debt that preserves pension benefits for retired public-sector employees, a point of contention that had threatened to derail the debt-restructuring deal.

Hearings on the revised plan are scheduled to start Monday in U.S. Bankruptcy Court in San Juan. Puerto Rico's debt adjustment would reduce the island's $33 billion in bonds and other debt to $7 billion in the largest-ever U.S. municipal bankruptcy case.

The oversight board and Puerto Rico's government had been at odds until last week on provisions in the restructuring plan.

The latest version of the plan is in line with a law enacted by the island's government last week. The oversight board and the island's government had been negotiating for weeks over the law, which authorizes the territory to raise new debt on the condition that it makes no cuts to retired government employees' pension benefits.

The new plan takes out cuts to retired workers' benefits that had been in a previous version of Puerto Rico's plan of adjustment.

At the same time, the amended plan keeps language from a previous version that freezes defined-benefit pension plans for working teachers and judges. Under the plan, these employees would get the defined-benefit pensions they have already earned from the government, but their subsequent pension benefits will be defined-contribution plans, meaning the employees will be setting aside money from their paychecks, according to a spokesman for the oversight board.

The amended plan also specifies that there will be no cost-of-living adjustments for judges starting

Jan. 1, according to a Wednesday court filing by Natalie Jaresko, executive director of the oversight board.

Republicans Oppose Bill Aimed at Banning Certain Corporate Bankruptcy Strategies November 3, 2021
The bill signed into law last week by Gov. Pedro Pierluisi allows the island to raise new debt needed to complete its restructuring.

Days before the legislation was enacted, the oversight board had asked the bankruptcy judge overseeing the case to delay the start of confirmation hearings, because it was at loggerheads with the legislature over the bill.

The oversight board had agreed to drop the cuts to retiree pension plans in September, but had other objections to the legislation. Last week, Judge Laura Taylor Swain, who is presiding over Puerto Rico's bankruptcy case, ordered the government and the board to enter into negotiations along with a court-appointed mediator. Last week, the oversight board announced that it had reached agreement with Puerto Rico's government over the new legislation.

The Wall Street Journal

By Soma Biswas

Updated Nov. 5, 2021

Puerto Rico Bankruptcy Tab Nears $1 Billion As Case Nears End.

- **Judge Swain begins confirmation hearings on debt plan**
- **Island seeking to cut $22 billion of bonds to $7.4 billion**

Puerto Rico is making its case in bankruptcy court for a plan to slash billions of dollars in debt, an expensive process that has so far racked up nearly $1 billion in legal and professional fees that island residents will pay.

Hurricanes, earthquakes, ousting a governor from office and the coronavirus pandemic have prolonged the commonwealth's bankruptcy to more than four years, adding to its costs and keeping the island under a cloud of default.

Continue reading.

Bloomberg Markets

By Michelle Kaske and Steven Church

November 8, 2021, 4:00 AM PST Updated on November 8, 2021, 8:29 AM PST

Chicago Police Pension Costs Seen Swelling With Proposed Law.

- **Measure could add $3 billion to cost through 2055: Chicago CFO**
- **Legislation would boost cost-of-living hikes for younger cops**

Chicago's police pension obligations could increase by another $3 billion total through 2055 if the state of Illinois passes a proposed law designed to force the city to acknowledge its probable liabilities for annual pay increases to retirees.

Illinois State Senator Robert Martwick is preparing to push legislation in 2022 to change eligibility restrictions for cost of living adjustments for police retirees, saying current law understates the impact of those costs. The new law would bring rules for police in line with firefighters, and make the city's future costs more transparent, he said.

"It's making the unfunded liability reflect what the actual numbers are," Martwick said in an interview regarding the bill he's pressing for. "That will require the city to put in the necessary payment."

Chicago officials oppose the measure, calling it a burden. The extra liabilities added would be "unaffordable," said city Chief Financial Officer Jennie Huang Bennett.

"It is something that we are very concerned about and monitoring very closely," Bennett said in an interview regarding the legislation. The police cost of living adjustment "would be very expensive for the city."

The legislation would remove a requirement that police retirees be born before 1966 to be eligible for a 3% automatic annual increase in payments. Martwick says the state legislature repeatedly has made the required birth date later to include more retirees, meaning the actual costs for Chicago end up being higher than expected.

'Sizable' Shortfall

Underfunded pensions are a problem for city and state governments nationwide. But the shortfall is particularly acute in Chicago.

Overall, the city has about $33 billion of unfunded liabilities across four pension funds for police, firefighter and other municipal workers, after years of inadequate contributions. That's an amount nearly twice as large as the $16.7 billion fiscal 2022 budget that the Chicago City Council passed last month.

Moody's Investors Service rates the city's debt as junk largely because of what it calls an "extremely sizable unfunded pension liability." Chicago is trying to fix the problem by boosting contributions and finding new sources of revenue. It's also getting large amounts of federal aid.

S&P Global Ratings and Fitch Ratings, which give the city investment-grade ratings, have both recently changed their medium-term outlooks for the city's grades to "stable" from "negative" after Moody's took a similar step in July. They have all cited the easing of pandemic-related pressure.

Firefighters' Version

Earlier this year, Martwick successfully supported a similar measure for the city's firefighter pension plan, which was passed by the state legislature and then signed into law by Governor J.B. Pritzker in April.

In April Pritzker said he signed the legislation because it "gives all firefighters certainty and fair treatment." The pending sale of the James R. Thompson Center, which houses Illinois government offices, should return the state building to property tax rolls and generate $45 million annually that would be partly shunted toward added pension costs, he said in April.

Chicago Mayor Lori Lightfoot staunchly opposed the measure, saying the change would increase the city's liability by more than $800 million through 2055. In January 2021, Lightfoot called it an "irresponsible piece of legislation" that would "pass on a massive, unfunded mandate to the taxpayers of Chicago at a time when there are no extra funds to cover this new obligation."

The city's total retirement contributions for fiscal 2022 will increase to $2.3 billion across its four funds, a jump of about $460 million from 2021. To help pay for retirement costs, the city is currently reviewing bids for a casino in Chicago, and plans to use tax revenue from the gambling for police and fire pensions. The deadline for bids was last week, and Lightfoot's administration would like to recommend a finalist to the Illinois Gaming Board in the first quarter, the mayor said Friday in response to questions from a reporter.

Martwick said in early 2022 he will request a committee assignment for the proposed legislation that he originally introduced in February, as a first step before it potentially heads for a floor vote. If the Illinois General Assembly approves the legislation, it would head to the governor's desk for his signature.

The legislature is adjourned until January and would review assignments of committees for proposed bills closer to the return of session, John Patterson, a spokesman for Illinois Senate President Don Harmon, said in an email.

"We don't do analysis on bills that don't move, so we don't have a stance on this one," Jordan Abudayyeh, a spokeswoman for Pritzker, said in an email noting the bill does not have co-sponsors or a committee assignment.

The Illinois Municipal League, which represents towns all over the state, opposes the proposed bill because it would be a mandate that results in less money for other Chicago city services and operations, Brad Cole, the group's executive director, said in an email.

The city's pension burdens weren't created by Lightfoot and took decades to mount, Martwick said. Mayors historically have wanted to provide the benefits without putting the money in, he said.

"That's a bad equation," Martwick said.

Bloomberg Markets

By Shruti Singh

November 5, 2021, 8:47 AM PDT Updated on November 5, 2021, 1:47 PM PDT

Fortress Firm Plans to Sell $1 Billion of Debt for Florida Train.

- **Brightline has already sold $2.7 billion of tax-free bonds**
- **Service suspended because of pandemic set to resume Nov. 8**

Brightline Holdings, the Florida luxury rail company backed by Fortress Investment Group, wants to sell an additional $1 billion of tax-exempt private activity bonds primarily to finance its Miami to Orlando line.

The company, which has already sold $2.7 billion of debt for the $6 billion project, plans to seek formal authorization from a Florida agency needed to access the financing within a "couple weeks" and market the bonds shortly afterward, said Chief Executive Officer Michael Reininger by phone Thursday.

The issuance will be the last such financing for the line, he said.

The country's first new privately financed intercity passenger rail in a century, launched in 2018 along Florida's east coast, missed passenger and revenue forecasts even before the onset of the Covid-19 outbreak. But over recent months, the company has notched several wins to boost ridership, such as reaching an agreement with Walt Disney World Resort to develop a station on its property. Brightline is also working on commuter rail initiatives with Miami-Dade and Broward counties.

Fees from those commuter partnerships would be collateral for the new debt, Reininger said. The company also plans to allocate about $100 million from the sale's proceeds to cover the interest to bond holders through January 2023.

"We think it's going to be attractive for the bond market," Reininger said.

The train, which was suspended in March 2020 because of the pandemic, is set to resume service between Miami and West Palm Beach on Nov. 8. Construction on its Orlando expansion is expected to wrap up by the end of next year.

Municipal-bond investors have welcomed the developments. A bond due in 2049 traded Oct. 28 at an average yield of 6.1%, compared with a high of 7.75% in January, according to data compiled by Bloomberg.

Of the $1 billion in proceeds, $740 million would go to costs for the Miami to Orlando line and $20 million to preliminary work on extending the train to Tampa, Reininger said.

Bloomberg Markets

By Romy Varghese

November 4, 2021, 2:54 PM PDT

How the Failed Arena Bond Measure Shows Denver's True Priorities, According to Activists.

As the results started trickling in Tuesday night, election night in Denver, one ballot measure's numbers weren't looking good to Mayor Michael Hancock and his supporters.

It started to look like, for just the second time since 1982, Denver voters were going to reject issuing municipal bonds to pay for a city project the mayor had personally supported.

Early returns showed voters rejecting Referred Question 2E, which would have allowed the city to borrow $190 million in municipal bonds to build a new arena at the National Western Center in Elyria-Swansea and make renovations to another building on the site. It was one of five measures comprising a $450 million bond package dubbed RISE Denver.

Continue reading.

denverite.com

by Esteban L. Hernandez

Nov. 4, 2021

[S&P: How The Western States Plan Is Critical To Ratings As Colorado River Flows Slow To A Trickle]()

Key Takeaways

- Drought, aridification, and climate change are expected to reduce Colorado River water allocations to record lows for the foreseeable future, necessitating significant changes to how the western states use, store, and conserve water.
- Drought and water scarcity could pressure issuer financial margins, supply adequacy, rate affordability, and growth prospects if not properly managed.
- Stress testing suggests the sector is well positioned to weather the growing environmental risks related to drought cycles.
- We predict that issuers who are not already planning for severe water scarcity will face greater rating pressure.

[Continue reading.]()

18 Oct, 2021

[S&P U.S. Local Governments Credit Brief: California Counties And Municipalities]()

Overview

California counties and municipalities (or local governments [LGs]) have demonstrated stable credit quality through the pandemic, and S&P Global Ratings expects credit quality for California LGs to remain stable in the near term. The stability is supported by growing property tax bases, strong budgetary performance, and very strong financial flexibility.

S&P Global Ratings maintains ratings on 252 LGs within the state. Overall, LG credit quality remained stable, with 6.7% experiencing rating movement since January 2020. During this period, California LGs had 12 positive rating movements and five negative rating movements on general obligation or general fund-secured bonds. Additionally, at 96%, the majority of the ratings have a stable outlook, while 1% have positive and 3% have negative outlooks.

[Continue reading.]()

[Fitch: Environmental Costs Increase for California Public Power Utilities]()

Fitch Ratings-New York/Austin/San Francisco-26 October 2021: California public power utilities face increased costs as a result of extreme drought conditions that have reduced hydroelectric generation and increased wildfire risk, Fitch Ratings says. Public power utilities have taken actions to shore up their financial resilience in light of recurring droughts, including fortifying cash reserves and adopting automatic rate adjustors. Our report Drought and Wildfires Increase Costs for California Public Power Utilities notes credit quality is not expected to be affected, but utilities with already high operating cost burdens may see negative credit pressures.

Hydroelectric generation is expected to be 49% lower this year than last year according to the US Energy Information Administration, forcing utilities to purchase natural gas to meet power demands. Gas prices recently reached a seven-year high. Northern California utilities rely heavily on hydroelectric generation sources and are the most affected by higher purchased power costs. These utilities may implement higher retail electric rates and/or see reduced financial margins.

The drought exacerbated this year's wildfire season, which is set to exceed last year's record-setting season. A utility can be held financially liable for wildfire damage if its equipment is determined to have sparked a wildfire, even if lines were maintained in accordance with industry best practices and the utility is not found to have acted negligently, according to California's application of inverse condemnation. Utilities are spending increased amounts annually on wildfire prevention efforts and mitigation plan development and compliance.

The pace of clean energy regulation is more rapid in California than most other states, and investments in transmission and other new technologies to comply are also contributing to utilities' increased operating costs. California utilities have a higher operating cost burden,15.1 cents/kWh in 2020, than the average of 10.32 cents/kWh across Fitch's national portfolio of public retail electric utilities.

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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.

Los Angeles Turns Supply-Chain Mess Into Biggest Covid Rebound.

The area's employment growth and performance in the stock market has topped its U.S. peers.

America's shortage of labor, products and services — provoked by Covid-19's disruption of the global economy — has a platinum lining in Los Angeles.

Obscured by unprecedented supply-chain bottlenecks, California's largest city and No. 2 in the U.S. after New York, has no peers unloading, processing and transporting the nation's imports from its two busiest ports. Being the supreme gateway for U.S. trade helps make the Southern California area of about 630 square miles (Los Angeles, Long Beach and Anaheim) the fastest-growing labor market among the five largest American metropolises during the past year and perennially No. 1 for factory workers, according to data compiled by Bloomberg.

Continue reading.

Bloomberg Opinion

By Matthew A. Winkler

October 20, 2021, 2:00 AM PDT

Puerto Rico Bankruptcy Judge Orders Monday Call on Debt Plan.

- **Judge Swain seeks status of debt plan after bond bill stalls**
- **Legislation is needed to restructure debt and leave bankruptcy**

The judge overseeing Puerto Rico's record bankruptcy ordered Governor Pedro Pierluisi, the island's political leaders and its financial oversight board to participate in a conference call Monday after lawmakers failed to enact legislation to restructure the commonwealth's debt.

Confirmation hearings set for November on the oversight board's debt restructuring plan will remain in place pending completion of the call, U.S. District Court Judge Laura Taylor Swain said in her order Friday.

The purpose of the conference is for the parties to explain the status of the debt restructuring plan "and any alternative measures in light of the absence of the contemplated legislation," Swain wrote.

The oversight board on Thursday said it would ask the court to delay the planned November hearings if island lawmakers failed to enact a bond bill by 2 p.m. ET on Friday that authorizes the commonwealth to sell new restructuring bonds. The legislation is a key step in getting Puerto Rico closer to exiting its more than four-year bankruptcy.

The commonwealth's debt adjustment plan seeks to resolve $33 billion of bonds and other debt. It's the largest bankruptcy in the municipal bond market and already has been delayed by natural disasters and the coronavirus pandemic.

Puerto Rico's Senate on Thursday failed to round up the necessary 14 votes to pass the bond bill after the House of Representatives approved the measure on Tuesday. Pierluisi supports the legislation.

Swain's order included the participation of Senate President Jose Dalmau and Rafael 'Tatito' Hernandez, Speaker of the House of Representatives.

The Senate's lack of votes for the bond bill prompted a comment on the issue Friday from Popular Inc., the island's biggest bank by both assets and deposits.

"Failure to approve legislation to enable the debt adjustment plan could jeopardize the ongoing economic recovery of Puerto Rico," Ignacio Alvarez, Popular's president and chief executive officer, said in a statement Friday. "While not perfect, we believe approving the plan is in the best interest of Puerto Rico."

Bloomberg Markets

By Michelle Kaske and Jim Wyss

October 22, 2021, 4:00 AM PDT Updated on October 22, 2021, 11:32 AM PDT

Texas Showdown Shows Limits of Seeking Gun Control through Banks.

We now have the first measurable results of the campaign to use major banks' market power to curb the US gun trade. When faced with a legal counter-attack from the Republican-controlled state of Texas, the anti-gun movement appears to have been unsuccessful.

Back in early 2018, public outrage following a series of mass shooting incidents in the US, including one at a Parkland high school, led to activist demands for the financial industry to cut off support for the gun trade.

At the time, the National Rifle Association, the largest US gun lobbying group, was facing accusations of financial mismanagement that ultimately led to an investigation by New York State authorities and a bankruptcy proceeding. Anti-gun activists had reason to believe it was a good moment to strike.

At first, the activists made progress. By March 2018, Citigroup had announced that it would require retailers who were clients of the bank not to sell firearms to customers under the age of 21, and to cease the sale of devices "that increase the firing rate of semi-automatic firearms". Shortly after, Bank of America said it would halt lending to manufacturers of "military-style" weapons.

JPMorgan Chase was a bit slower to react to the mass-shooting revulsion, but this year chief executive Jamie Dimon told Congress that the bank would also no longer finance the makers of military-style weapons. Goldman Sachs made a similar commitment. Others, such as Morgan Stanley, made more equivocal pledges to step back from the gun trade.

There were, however, banks who have held back on restricting support for the firearms and ammunition trade. Among the largest are Wells Fargo and Barclays' US bank.

As I have noted in the past, the consumer end of the gun making industry in America is a highly fragmented, low-tech metal bending trade. On past form it is more likely to be a source of bankruptcy attorneys' fees than profit growth for its lenders.

But more than a third of Americans say they own guns. When gun owners are asked why they own a firearm, they most frequently cite personal safety or defence. Less than half say they bought a gun for hunting.

Gun buying does track political identification. According to a Pew Research public opinion survey, 44 per cent of Republicans and Republican-leaning independent voters say they own a gun, in contrast to only 20 per cent of Democrats or Democrat-leaning independents.

Politicians paid attention. Democrats in Republican-leaning states, such as Joe Manchin in West Virginia, and populist Republicans such as Marjorie Taylor Greene of Georgia have made campaign videos showing them shooting guns at copies of locally unpopular legislation or exploding targets.

Texas Republicans, whose control of the state government has become shakier in recent years, have fastened on the anti-mass shooting movement as a useful foil.

In June, the Texas legislature passed into law Senate Bill 19, which prohibits state contracts with companies that "discriminate against the firearms or ammunition industries". This included the major banks' limitations on doing business with the gun trade, and "state contracts" included the underwriting of municipal bonds.

Texas is the third-largest municipal bond issuer (after California) in the US, with over $408bn in total outstanding public debt. This was a major test for the anti-gun campaigns.

Yet Bill 19's language is ambiguous and an underwriter might find hairsplitting ways to get around its stated purpose. Nevertheless, JPMorgan, Bank of America, Citigroup, Goldman and others pulled back from underwriting Texas muni bonds after the law went into effect on September 1.

What happened when Texas re-entered the bond market after the return from the summer holidays? Hardly anything. By the third week of October, the state had issued $730m of new bonds, which were underwritten by lower-tier banks and dealers.

While October was a difficult month generally for the municipal market, according to CreditSights, an independent analytics firm, the yield on the state's AAA bonds hovered around 1.41 per cent, just 0.17 percentage points higher than the benchmark ICE BAML Municipal Bond Index.

As one municipal dealer says: "The smaller dealers got excited for a hot second, but that was it. The state government made a move that seemed congruent with its population's sentiments."

The thin results of the anti-gun campaign in the banking industry show the limits of creative fixes for divisive issues marked by deep social fears and political tribalism.

PublicWire

October 30, 2021

Puerto Rico Board Ends Spat That Threatened Restructuring.

- **Oversight board says bond law allows for debt restructuring**
- **Board decision ends need for mediation with lawmakers**

Puerto Rico's debt restructuring plan can move forward as a new law that allows the island to sell bonds was cleared by the commonwealth's financial oversight board, resolving an impasse that threatened to derail the largest bankruptcy case in the municipal-market's history.

The board announced in a statement Thursday morning that the bond bill was acceptable for the debt restructuring. The decision allows both sides to skip mediation talks planned for this week to try and hash out a compromise on disagreements over changes to public worker pensions.

Puerto Rico's bankruptcy case was at risk of being tossed out. U.S. District Court Judge Laura Taylor Swain warned the parties during a hearing Monday that she may be forced to consider dismissing the bankruptcy if the commonwealth didn't have a debt restructuring plan that she could confirm promptly.

"I am relieved and pleased that we are back on track and can move forward with the plan of adjustment to end Puerto Rico's painful bankruptcy," David Skeel, the board's chairman, said in a statement Thursday. "This plan reduces Puerto Rico's debt to sustainable levels and its confirmation will provide a foundation for sustainable economic growth."

Bondholders, creditors and bond insurance companies have negotiated with the board for years to reach agreements on how to reduce Puerto Rico's obligations. The debt restructuring plan would help resolve $33 billion of bonds and other debt, including cutting $22 billion of bonds tied to the central government down to $7.4 billion.

Trades Up

Prices on some Puerto Rico securities jumped following the board's decision. General obligation bonds maturing in 2035 with an 8% coupon changed hands Thursday at an average 87.5 cents on the dollar, up from 86.1 cents the day before, according to data compiled by Bloomberg.

The board late Wednesday told the court in a filing it supports the confirmation of the debt adjustment plan, which also addresses more than $55 billion of unfunded pension liabilities. Swain is set to begin confirmation hearings on that debt cutting proposal on Nov. 8.

"Let there be no illusions," the board said in the court filing late Wednesday. "The people and the creditors have each suffered serious losses. The plan does not restore everything lost. But, the plan and the fiscal plan measures preceding it and following it, can enable the commonwealth to provide much brighter futures."

Governor Pedro Pierluisi signed the bond bill into law late Tuesday after both legislative chambers approved the measure earlier that day.

"Puerto Rico is on the way to recovery," Pierluisi said in a statement Thursday. "The wise decision to go ahead with the confirmation of the debt adjustment plan to make the debt restructuring of the government of Puerto Rico viable is a great step towards the promising future of Puerto Rico."

The board and lawmakers had clashed over potential changes to pensions for public workers. The board has proposed freezing the pension benefits that current teachers and judges would receive once they retire, a change that lawmakers oppose.

A dismissal of Puerto Rico's bankruptcy would be an expensive failure for the commonwealth. Since the island's bankruptcy started in May 2017, lawyers, accountants and other financial professionals working on the case have billed commonwealth taxpayers more than $960 million for their work.

Bloomberg Politics

By Michelle Kaske

October 28, 2021, 7:18 AM PDT Updated on October 28, 2021, 10:07 AM PDT

— With assistance by Steven Church

Minnesota Charter School Loses $4.3 Million on Hedge-Fund Bet.

- **Founder of Hmong College Prep Academy resigned Monday**
- **St. Paul, Minnesota, school has $70 million in muni debt**

The founder and superintendent of a St. Paul, Minnesota, charter school with about $70 million in municipal debt resigned a week after the state auditor found the school lost $4.3 million in an improper hedge-fund investment.

Christianna Hang, superintendent of the Hmong College Prep Academy, resigned Monday at a special board meeting.

The departure came after the K-12 charter school drew attention for losing almost all of the $5 million it invested with Woodstock Capital LLC, a New Jersey-based hedge fund, in 2019. The investment wasn't permissible under state law and conflicted with the school's policy, according to a Oct. 18 report by state auditor Julie Blaha.

Hang didn't respond to a message left with the school. Clark Reiner, managing partner of Woodstock Capital, didn't immediately return a call seeking comment.

Charter school bonds are among the riskiest in the municipal market because of the chance that they will shut down if enrollment or academic performance falters. Charter schools receive public funding based on how many students enroll but are operated independently.

About $200 million of $26.3 billion of municipal debt issued for charter schools is currently in default, according to data compiled by Bloomberg.

Hmong College Prep Academy issued $43.3 million of bonds in 2016 and another $26.1 million in 2020 to finance the renovation and expansion of the school, which educates about 2,400 students. The debt is rated BB+ by S&P Global Ratings Inc., one step into junk. Hmong College Prep Academy operates under a charter contract with Bethel University, which oversees the school.

Nuveen LLC was the largest holder of the school's debt as of Sept. 30, with about $33 million, according to data compiled by Bloomberg. Jessica Greaney, a Nuveen spokeswoman, didn't immediately respond to an email requesting comment.

Woodstock, the hedge fund, provided a letter to the school indicating the money would be invested in safer, more liquid instruments such as U.S. Treasuries, according to the school's 2020 financial statement. But when the the school sought to withdraw its funds at the end of 2020, it discovered the value of the investment had plummeted. Minnesota law prohibits the investment of public funds in private equity partnerships or hedge funds.

Hmong College Prep Academy has sued Woodstock and Reiner, the managing partner, alleging they fraudulently induced the school to invest.

Hmong College Prep Academy had about $14 million in cash and investments as of June 30, 2020, according to its financial statement. The school was able to recover $684,762 of its $5 million investment. Woodstock hasn't provided an accounting of its investment activity, according to the financial statement.

In an Aug. 30 letter to the academy, Bethel University said it had "great concern" related to the management of the school's finances, governance and legal compliance. Bethel called on the school to fire the superintendent, hire an outside financial consultant and create a a chief financial officer position to remove financial responsibilities from the superintendent. Bethel also recommended that the school be led by someone without any ties to it.

Bloomberg Markets

By Martin Z Braun

October 26, 2021, 11:11 AM PDT

Virginia Beach Confronts Inescapable Costs of Rising Seas.

VIRGINIA BEACH, Va. (AP) — Voters in the sprawling coastal city of Virginia Beach will decide whether to approve one of the larger municipal bonds in the U.S. that would be used to protect against rising seas and intensifying hurricanes.

If it passes Tuesday, the $568 million would fund anything from elevating roads to closing a 100-acre city golf course to collect stormwater.

If it fails, economists said the city could lose billions of dollars in the next half-century as recurrent flooding inundates roads, businesses and homes.

The referendum underscores the mounting costs of adapting to climate change for U.S. cities. However, it will also be a measure of Americans' willingness to approve such bonds as more communities seek funding.

"I'm not confident that it will pass," said Virginia Wasserberg, whose Virginia Beach home was among 1,400 houses and businesses flooded by heavy rains from the remnants of Hurricane Matthew in 2016.

Wasserberg, 41, is a conservative Republican who home-schools her children and supports the bond. She's campaigned for more flood protections ever since her neighborhood's drainage systems were overwhelmed by weeks of rain that culminated with Matthew.

Homes that are miles from the city’s beaches on the Atlantic Ocean and Chesapeake Bay were inundated for the first time. Wasserberg said she and her family fled to the second floor and called 911 — only to be told that responders couldn’t reach them.

“I like to say it took a disaster to wake me up,” Wasserberg said.

Voter approval is far from guaranteed in this city of nearly half a million people, which some political observers said can lean libertarian. If the bond passes, property taxes would rise by $115 to $171 a year for a home of median assessed value, city officials said.

The need for money to protect communities against climate change is growing across the globe, particularly in the world’s poorest countries. It will be an area of discussion at an upcoming UN Climate Change Conference, which starts Sunday in Glasgow.

In the U.S., 26 percent of ZIP codes are “highly exposed to floods,” according to Moody’s ESG Solutions, which tracks climate risks and sustainable finance.

“As climate change becomes a greater threat, more governments will focus on climate adaptation and resilience projects,” said Matt Kuchtyak, the group’s vice president of outreach and research.

Several cities have already approved significant bonds. For instance, Miami residents voted in 2017 to fund a $400 million bond, nearly half of which would pay for such things as storm drain upgrades and sea walls.

San Francisco voters passed a $425 million bond to pay for the first phase of strengthening a sea wall that protects against earthquakes and rising oceans. The same year, Houston-area voters supported $2.5 billion in bonds for flood-control projects in the wake of Hurricane Harvey.

Bonds could emerge as the principal vehicle for funding, said Richard Wiles, executive director of the Center for Climate Integrity, which argues that oil companies should cover such costs because of fossil fuels’ link to climate change.

“None of these cities has hundreds of millions of dollars hanging around,” Wiles said, adding Virginia Beach has proposed one of the biggest bonds.

The city could prove to be an interesting testing ground.

A 2021 telephone survey of 400 residents found just more than half were willing to pay more in taxes for flood-protection projects, according to a report by Old Dominion University. However, half also agreed people who do not experience flooding on their properties should not have to pay for such projects.

And yet, the land in Virginia Beach is sinking and the seas are rising at an alarming rate. Since 1960, sea levels have risen by nearly a foot. And they’re likely to rise by 1.5 feet to 3 feet over the next half-century.

Much of Virginia Beach sits on low coastal plains. Water can drain slowly into tidal rivers and tributaries, sometimes with nowhere to go during heavy rains and high tides.

The bond-funded projects could help the city avoid up to $8 billion in losses to flooding as well as associated economic impacts in the coming decades, according to the Old Dominion University report. The losses are equivalent to about a quarter of Virginia Beach’s gross domestic product — or its total output of goods and services.

“As flooding becomes more prevalent, insurers will raise premiums, refuse coverage and at some point exit Virginia Beach entirely,” economics professor Robert McNab said. “Businesses will have more difficulty in moving goods to market and, of course, residents will have more problems moving around the region.”

John Moss, a city councilman who’s been a large force behind the referendum, said Virginia Beach could still complete the flood-protection projects if the referendum fails. However, he said it would take 25 years instead of about a decade.

And even if the bond passes, the projects will make up about a third of what’s needed overall protect to against 1.5 feet of sea-level rise, Moss said.

“It’s a big ask,” Moss said of the bond. “But the threat is real.”

News Tribune

Oct. 29 2021

[Puerto Rico House Passes Bond Bill to Restructure Debt.]()

- **Senate has yet to vote on the measure, set to meet on Thursday**
- **Legislation needed to help get Puerto Rico out of bankruptcy**

Puerto Rico’s House of Representatives approved a bill late Tuesday that allows the commonwealth to issue new bonds to replace existing debt and cut its obligations, a key step that moves the island closer to resolving its record bankruptcy.

The Senate failed to take up the measure on its floor, as that chamber works to garner sufficient votes to pass the legislation, Rafael “Tatito” Hernandez, Puerto Rico’s speaker of the house, said in a telephone interview.

“It’s always an issue of votes in every deal in the House and Senate because we don’t have a supermajority,” Hernandez said. “So we have to make deals. That’s the way to do things.”

The legislation is needed so the commonwealth can execute a debt restructuring that will slash $33 billion of debt, including $22 billion of bonds, to $7 billion. The bill, which has Governor Pedro Pierluisi’s support, stipulates that Puerto Rico’s financial oversight board must remove a proposed 8.5% cut to some public-worker pensions from its debt restructuring plan, a major concession the panel agreed to last week to get island lawmakers to vote for the restructuring bonds.

The island’s legislature is under deadline to approve the bond bill as U.S. District Court Judge Laura Taylor Swain is set to hold confirmation hearings next month on the board’s debt adjustment plan.

The Senate is set to reconvene on Thursday and could take up the bond bill then. Senate President Jose Dalmau will need to round up the necessary votes.

“Let him do his magic,” Hernandez said about Dalmau’s vote hunt. “Let him do his stuff.”

Still, the more lawmakers tinker with the legislation, the greater the risk that the oversight board could determine that the bill fails to comply with Puerto Rico’s multi-year fiscal plan, which aims to keep spending in line with revenue collections.

The board has contemplated asking the court to authorize new bonds if Puerto Rico lawmakers fail to approve the new securities, a rare move in the $4 trillion municipal-bond market. State legislatures and local elected officials tend to authorize borrowings.

While the board has agreed to remove pension cuts from the debt plan, Swain may still require reductions to retirement benefits, according to the oversight board.

Pierluisi expressed his support for the bond bill during a press conference in San Juan on Tuesday.

"We will be able to leave the bankruptcy behind, which is a dark cloud over Puerto Rico," Pierluisi told reporters.

Puerto Rico has been in bankruptcy since May 2017 after years of borrowing to cover budget gaps and population decline.

Bloomberg Markets

By Michelle Kaske

October 19, 2021, 8:37 PM PDT

[S&P U.S. Local Governments Credit Brief: Minnesota Cities, Counties, And Schools]

Overview

As the COVID-19 pandemic continues, the ratings on Minnesota local governments rated by S&P Global Ratings have mostly remained resilient, driven by largely stable property tax bases, balanced budgets, and very strong reserves and liquidity.

S&P Global Ratings maintains ratings on 326 cities, 64 counties, and 122 school districts in Minnesota as of Sept. 30, 2021. Overall, local government credit quality in the state remained stable despite the COVID-19 pandemic, as most entities do not have outsized reliance on economically sensitive revenue, and most responded preemptively by managing their revenue expectations and expenditures.

Only 10% of the rated issuers experienced rating changes as of January 2020 through Sept. 30, 2021. During this time, 2% of Minnesota local governments had positive rating actions and 8% had negative rating actions on their issuer credit ratings or general obligation bonds. Most of the ratings, 96%, have a stable outlook.

Most downgrades resulted from weakened economic measures and concentration, deteriorating budget performance, and weakened budgetary flexibility. In some cases, financial deterioration was exacerbated by weakened management controls. Weak to very weak debt burdens also contributed to diminished flexibility and credit deterioration. While upgrades were not common, they were mainly attributed to sustained economic and financial improvement.

[Continue reading.]

21 Oct, 2021

A Pioneering Environmental Impact Bond for DC Water (Updated)

In September, the DC Water utility repaid an Environmental Impact Bond in full with no penalty. When we first covered it in 2017, the bond was a novel approach that priced and sold the risk of green infrastructure performance to investors. If the utility's new green-infrastructure pilot project didn't reduce sewage in public waterways by a critical threshold, investors would send roughly $3 million back to DC Water. And if it beat that threshold resoundingly, investors would earn a premium.

Abby Martin, who wrote the article heralding the bond, now works in fundraising consulting and has watched its success from afar. Catching up with CFN last week by Zoom, she reflected that the project became a "transferable" example for cities with risk-averse financial managers who wanted to support experimental conservation approaches. Indeed, Quantified Ventures, which helped structure the bond, now reports oversubscribed environmental-impact bond offerings in Buffalo, Atlanta, and elsewhere.

We also caught up with Quantified Ventures' president Eric Letsinger, who spoke of the project's promise in the article we're reposting here. Looking back, Letsinger sees "the number one overlooked benefit" of the bond's structure in its power to control the project's total cost of ownership. Bondholders paid for measurement and monitoring, he stressed, which freed engineers to observe and adjust to reach the systematic improvements they sought. "In municipal government, we pay for everything up front, don't invest in rigorous prediction and don't report out, and then when a project is over it becomes an advocacy effort for some to say hey, that was a wild success and somebody else to say it was not."

As more cities face annual weather catastrophes and changing climates, green infrastructure must prove effective to compete alongside gray infrastructure investments. DC Water's repayment of the Environmental Impact Bond is a proof point in predicting and pricing performance risk and measurement, and an important signal for utility engineers and investors alike.

This article first ran on January 2, 2017.

District of Columbia Water and Sewer Authority (DC Water) has created an innovative municipal bond that covers the downside risk of using green infrastructure to control stormwater runoff. Compared with conventional gray infrastructure, green options have a shorter performance record and are more difficult to model. However, they are often cheaper and offer visible community benefits.

If this bond package is successful, it could change the perception of green infrastructure as a risky, unproven option for managing stormwater. This might encourage water and sewer agencies to adopt green infrastructure techniques more widely.

Facing pressure from a federal consent decree to clean up its waterways, the city is looking for innovative ways to control urban runoff. But, like many government agencies, DC Water hopes to avoid bearing the full cost of any failed experiments.

DC Water's solution is the nation's first Environmental Impact Bond (EIB), which links financial payouts with environmental performance. The $25 million tax-exempt EIB, which was sold privately to Goldman Sachs and the Calvert Foundation in September 2016, will fund a pilot green infrastructure project within DC Water's Clean Rivers Project. The $2.6 billion, 25 year-old project is the city's effort to improve water quality to comply with its consent decree.

Why Is Infrastructure Being Created?

Like around 770 other communities in the United States, Washington, DC relies on a combined sewer system that mixes stormwater and sewage into the same pipes. Wet weather can overwhelm DC Water's one treatment plant, forcing discharges of raw sewage into local rivers. The Clean Rivers Project works to reduce these combined sewer overflows with massive underground tanks that will hold effluent until the plant has treatment capacity.

More recently, the city has also explored adding green infrastructure like rain gardens and permeable pavement as a first line of defense in preventing stormwater runoff from entering the system. Green infrastructure offers more visible community benefits at a lower cost than the concrete-intensive gray infrastructure of DC's planned holding tanks. However, green infrastructure is less proven compared to the gray alternative, said DC Water's CFO, Mark Kim.

In early 2016 the Environmental Protection Agency signed off on DC Water's modification of its original stormwater control plan, which relied solely on gray infrastructure. The change included more green infrastructure. The modification package allows DC Water to eliminate one of three massive tunnels and redesign another, Kim said, replacing gray infrastructure capacity with approximately 300 acres and over $90 million of green infrastructure. The modification represents significant potential savings, as well as substantial risk.

How Is the Risk Being Quantified?

Although the performance of traditional gray infrastructure is straightforward to model and measure, green infrastructure is less predictable and measurable.

Performance of a green infrastructure installation depends on that site's particular climate, soils, vegetation, and a host of other factors, said Eric Letsinger, president of Quantified Ventures, the firm that helped analyze the risk of the EIB. And measuring water absorbed into soils across a city is much more challenging than gauging flow through sewer mains.

Successes in other cities, or even elsewhere in DC, would not guarantee that DC Water's large-scale green infrastructure will meet EPA-mandated performance goals, Kim said.

To help address these issues, the agency is building a pilot green infrastructure installation that channels all water from its site into a single, gauged outflow pipe to enable accurate performance measurement. The agency has conducted 12 months of baseline stormwater runoff measurements at the site. These will be compared with 12 months of runoff measurements after the green infrastructure is installed.

The EIB effectively insures DC Water against extreme underperformance. Kim said the operational risk of these natural systems is problematic. "The agency's performance depends on our green infrastructure success. We are planning to spend north of $100 million on green infrastructure – and we can't afford to make a $100-million mistake."

The innovation within the EIB, Letsinger and Kim said, is DC Water's packaging and selling of the performance risk for its green infrastructure program.

Using water-modeling software, DC Water calculated that its green infrastructure installation would reduce stormwater runoff by about 30 percent. A Monte Carlo simulation, a modeling technique that calculates a range of possible outcomes and the probability that each outcome will occur, helped Quantified Ventures calculate the risks inherent in the project's performance.

Three tiers of performance help DC Water finance the most extreme project outcomes. The agency has conducted 12 months of baseline stormwater runoff measurements at the site. These will be compared with 12 months of runoff measurements after the green infrastructure is installed.

If the green infrastructure reduces runoff as expected in 95 out of 100 iterations, the EIB will function like a conventional 30-year municipal bond. Investors will receive the stated 3.43-percent coupon rate and the principal at maturity. This rate is comparable to the historic rate for DC Water's 30-year bonds, Kim said.

Any performance-based payments will occur at the five-year mark, when the project has been installed and post-construction performance has been measured. At that point, the bond will be refinanced into a conventional 25-year bond.

The Tier 1 and Tier 3 payments will cover the most extreme five percent of outcomes. Models suggest a 2.5-percent chance that the green infrastructure installations will reduce storm-water runoff by less than 18.6 percent, and a 2.5-percent chance that reductions will be greater than 41.3 percent. These numbers reflect a 95-percent confidence interval for the project's performance.

A Tier 1 underperformance, or runoff reductions of less than 18.6 percent from baseline, would trigger a contingency payment of $3.3 million from investors to DC Water. This "Shared Risk Payment" covers almost the entire cost of DC Water's interest payments over the first five years, Kim said, insuring the agency against failure. In this scenario, DC Water would go back to the drawing board on its green infrastructure plan, likely replacing much of it with gray infrastructure.

Conversely, a Tier 3 overperformance, or runoff reductions of more than 41.3 percent from baseline, would trigger a $3.3 million payment from DC Water to investors. This "Outcome Payment" would be in addition to the stated coupon and principal payments.

But this outcome would still represent significant savings for DC Water, Kim said, because the pilot green infrastructure would have proven to be extraordinarily efficient. The proven high performance would enable DC Water to handle the same volume of water with less green infrastructure – and possibly replace additional gray infrastructure with cheaper green alternatives.

"The EIB allows us to ask and answer the question 'does it work?' for these specific technologies for DC's climate," Kim said. Green infrastructure projects provide significant societal and environmental benefits beyond stormwater runoff reductions that are not valued in this offering. Kim said. "Green infrastructure has to work for managing stormwater to be worthwhile to DC Water. If it doesn't work for what we need, we shouldn't be doing it."

DC Water's goal has been to concentrate the performance risk for its entire green infrastructure plan into a single bond offering. With the success of this pilot project, Kim said, the agency will have satisfied itself that green infrastructure works. Then, it will be comfortable using conventional bond offerings to fund additional green infrastructure investments.

How Is the Project Scaling up?

The Environmental Impact Bond was sold in a private offering to Goldman Sachs and the Calvert Foundation. Eric Letsinger described the deal as a model for a wide variety of investors. "We wanted to demonstrate the attractiveness of this vehicle across a broad range of the investment field. We've created a financial structure that attracted institutional investors like Goldman alongside Calvert, a pure-play impact investor."

"The Calvert Foundation is greatly interested in green jobs and other co-benefits of green infrastructure," Kim said. "But they have not made a charitable investment with possibility of return; they have invested on the same terms as other investors."

DC Water and its partners believe the EIB will be more easily replicated than previously issued social impact pay-for-performance bonds. In the past, these bonds have typically been issued as one-off private contracts between financiers and governments, often using philanthropic support to cover the risk of project failure.

As Kim said, "There is no philanthropic capital to take a write-off to get this deal done." It is the first true social impact bond, a debt instrument with a risk-adjusted market rate of return.

Other communities could replicate this performance-based payoff structure, adjusting to the needs of specific projects. Performance payouts (the Tier 1 and Tier 3 of the EIB) could cover different proportions of the bond's coupons. The thresholds triggering performance payouts (the 95 percent of outcomes covered in Tier 2 of the EIB) would be tied to local data. The range could be tightened for a project with higher confidence in a specific performance.

Future bond offerings might need higher returns to attract non-institutional investors, said Jacob Galardi, a senior analyst at investment firm Emerging Energy and Environment Investment Group, who studies the green bond market.

With a contingency payment of only 13 percent of the bond's $25 million par value, this investment attracts conservative institutional investors, Galardi said. More sophisticated later offerings might test a wider range of performance values, narrower than the 95-percent confidence interval of the DC Water EIB.

From an environmental investment standpoint, "this is a very conservative offering because it is protecting against only five percent of outcomes," Galardi said. Future projects might use this risk-sharing model to protect against less extreme underperformance, or to fund more than a small pilot section of a project. "It is a tiny part of the overall capital issuance [of the $2.6 billion Clean Rivers Project], but a good first step."

At that point, performance measurement might need to be more nuanced. Narrowing the range to a 50-60 percent confidence interval might require longer-term monitoring plans to control for seasonal extreme weather, Galardi said.

For example, 12-month flow data used for DC Water's EIB could be thrown off by a single unusually wet or dry season, but that the 95-percent confidence interval is wide enough that measurements are likely to fall within the Tier 2 range expected performance outcomes. As green infrastructure modeling and monitoring technology evolve, water authorities should be able to dial in a more precise performance range.

This vehicle was designed to be replicable for green infrastructure projects and beyond, despite different risk profiles across projects. DC Water was confident enough in its design and implementation capabilities to manage that risk internally, Kim said, but other communities with less technical expertise might want to control risk elsewhere in the design process.

Meanwhile, Quantified Ventures is exploring the EIB's applications for protecting against performance risk in other new infrastructure investments like renewable energy, or the performance risk of water quality controls for agricultural runoff.

"We're a long way from cookie-cutter, but with more Environmental Impact Bonds, we'll get better, faster, cheaper, and more creative," Letsinger said, "I think the sky is the limit."

Conservation Finance Network

by Abby Martin, Alec Appelbaum

September 27, 2021

Sixth Circuit: City's Placement of a Park Entrance was not a Taking Under the Fifth Amendment.

The U.S. Supreme Court issued several important decisions altering and clarifying available procedures and arguments for landowners under the Fifth Amendment's Takings Clause in recent years. Most notably, in *Knick v. Township of Scott*, Pennsylvania, 139 S.Ct. 2162 (2019), the Supreme Court overturned a 30-year-old precedent that required landowners to exhaust all state law remedies before bringing a federal Takings Clause claim. This decision requires local governments to be more cognizant of their land use, planning, and zoning decisions because those decisions can be subject to immediate constitutional claims in federal court.

More recently, in *Cedar Point Nursery v. Hassid*, 141 S.Ct. 2063 (2021), the Supreme Court held that an access regulation requiring employers to permit labor organizations a right of access onto the employer's property to solicit support for unionization was a taking under the Fifth Amendment. The Court reasoned that a physical appropriation is a clear taking that can occur by whatever means, including taking the property owner's right to exclude from its property.

In September, in *Golf Village N., LLC v. City of Powell, Ohio*, the Sixth Circuit relied upon both *Knick* and *Cedar Point* in upholding a decision to dismiss a developer's claim that the city of Powell's placement of a municipal park entrance that actually connected to a private street system, and the increased traffic resulting from that placement, was a taking under the Fifth Amendment.

Golf Village alleged that the city appropriated Golf Village's right to exclude the public from its private property but failed to plead any factual content demonstrating such a taking. Per the Court, Golf Village needed to allege that the city authorized and licensed the public's use of the private streets and then deprived Golf Village of its right to exclude to establish a taking.

The city had appropriated one of the private streets in connection with the placement of the park entrance, and the city maintained that this was the intended public entryway to the park. Golf Village was specifically alleging that the remaining private streets could be used as an alternate access route to the park. Golf Village, however, did not allege that it was barred from excluding the public from the remaining private streets – the alleged alternate access route; indeed, the city conceded that Golf Village had the right to block access to the remaining private streets so that traffic could not use them to access the public park. Because the city did not require Golf Village to permit public traffic on its property, the Court found no government-authorized physical invasion of Golf Village's property requiring compensation.

The Court also rebuffed Golf Village's contention that the right to exclude is appropriated even if the property owner can take a specific action, like building a gate, to stop the taking. In short, there is no taking if the private property owner maintains its right to exclude. Because it was undisputed that Golf Village had that ability, there was no taking.

The same reasoning applied to Golf Village's argument that increased traffic along the remaining private roads would result in higher maintenance costs and violate Golf Village's right to use and enjoy property. The city never appropriated a right of access for members of the public to the remaining private streets and admitted that Golf Village has the right to exclude public traffic through any lawful means. Further, Golf Village retained the same ability to use and enjoy the private streets that it had before the challenged city actions.

Frost Brown Todd LLC – Jesse J. Shamp, Yazan S. Ashrawi and Jeremy M. Grayem

October 14 2021

[Puerto Rico Board Agrees to Remove Pension Cuts in Debt Plan.]

- **Board backs away from pension cuts if lawmakers approve bonds**
- **Oversight panel sought an 8.5% reduction to some pensions**

Puerto Rico's financial oversight board agreed to remove proposed public employee pension cuts from a plan to slash the island's debt, a major concession aimed at securing lawmakers' approval for a bond restructuring that will put an end to its more than four-year bankruptcy.

The board included a 8.5% reduction to some pension benefits in the debt adjustment plan that it filed to the bankruptcy court in March. Governor Pedro Pierluisi and island legislators have balked at any pension cuts.

The board's concession was made to end a clash with lawmakers over legislation authorizing new bonds to replace existing debt, an exchange that will allow the government to cut what it owes to investors. Still, the panel maintains Puerto Rico must freeze the teacher and judges pension systems, a move the island's Senate is trying to block.

"When the legislature and governor enact acceptable legislation, the oversight board will amend the plan to eliminate cuts to the accrued pensions of retired public employees and current employees of the commonwealth," David Skeel, the board's chairman, wrote in a letter dated Thursday to Pierluisi and the island's legislative leaders.

The board last week warned that it may be forced to withdraw its debt restructuring plan from the court if lawmakers pass legislation that includes Senate amendments that would increase the island's expenses by tens of billions of dollars. Such a step would put court confirmation of the plan at risk and prolong a bankruptcy that began in May 2017.

"While the oversight board continues to have reservations about the impact on the plan, it is prepared to accept the wishes of the elected representatives of the residents of Puerto Rico to the extent it can do so prudently and without failing to carry out its duties under Promesa," Skeel wrote.

The board's announcement was welcomed by Pierluisi, who said he has consistently fought against pension cuts and is also seeking to protect funding for the island's university and its municipalities. The board also agreed to such funding.

"We will continue fostering dialogue and working to get out of bankruptcy and respond to the needs of our people," he said in a statement Thursday.

While the board has agreed to remove pension cuts from the debt plan, U.S. District Court Judge Laura Taylor Swain may still require reductions to retirement benefits, according to the letter.

Swain is set to hold confirmation hearings next month on the debt plan, which would restructure $33 billion of debt, including $22 billion of bonds. Island lawmakers are under deadline to pass the legislation authorizing the new restructuring bonds before those hearings.

The board's willingness to remove the proposed retirement reduction from its debt plan could prompt island lawmakers to approve the necessary legislation.

The board also agreed to Senate amendments allocating $500 million annually for five years to the University of Puerto Rico, increasing municipal funding and spending $1 million for a study on the feasibility of extending medical coverage to uninsured residents, according to the letter.

Bloomberg Markets

By Michelle Kaske

October 14, 2021, 11:03 AM PDT Updated on October 14, 2021, 12:43 PM PDT

Chicago Seeks Approval for $4.4 Billion in Borrowing in 2022.

- **Request follows $4.6 billion of bonds already approved**
- **'Robust bond program' will go toward projects, refinancing**

Chicago is poised to be a frequent issuer in the $4 trillion municipal-bond market through the end of next year for projects and refinancing if the city council approves Mayor Lori Lightfoot's borrowing plans as part of her 2022 budget proposal.

Lightfoot's administration is seeking authorization from aldermen to issue as much as $4.41 billion of bonds, most of which would be sold next year, according to Chief Financial Officer Jennie Huang Bennett. That amount would include $2.06 billion in new money and $2.35 billion for refinancing old debt. That's in addition to the city's already authorized issuance of up to $4.66 billion, Bennett said.

"It's a robust bond program," Bennett said in an interview. "Interest rates are extraordinarily low. The city's credit spreads have come in significantly since we started the economic recovery from Covid."

While Chicago still has a junk rating from Moody's Investors Service, both S&P Global Ratings and Fitch Ratings consider the city's debt to be investment-grade at three notches and one level above junk respectively. The city has seen its financial strain ease amid the broader economic recovery and the influx of federal relief. Chicago is set to receive nearly $1.9 billion from the American Rescue Plan.

The trading in some Chicago debt reflects the improved outlook. A taxable refunding bond maturing in 2042, among the city's most-actively traded debt over the past month, saw its spread over benchmark debt at 219 basis points last week, compared to 447 basis points a year ago, according to data compiled by Bloomberg.

The city's bond ordinance proposal seeks authorization to sell $660 million in general obligation bonds that could be offered in several tranches starting in the second quarter of 2022. The ordinance also asks to issue $1.2 billion, split evenly between new debt and refinancing bonds, in the first half of next year for water and wastewater projects.

In the second half of next year, the administration wants to sell $1.55 billion of bonds for O'Hare International Airport, with $850 million for refunding and $700 million of new debt as well as $1 billion for Chicago Midway International Airport, with most of that for refinancing old debt.

The full city council is scheduled to hold a budget hearing on Thursday, and aldermen are expected to vote on the budget and related bond ordinances on Oct. 27.

The council has already approved the sale of as much as $1.2 billion in G.O. and sales-tax-backed bonds to refinance old loans by the end of this year. City officials expect the refinancing, pending some federal legislative action, to lower the interest rate on outstanding bonds to as low as 2% from 5%. Of the $254 million in interest savings projected from the deal, $232 million would go to police back-pay and $22 million would help close the $733 million deficit that the city faces in 2022.

The city also has approval for a tender exchange of up to $1.2 billion but may not tap the full amount, Bennett said. And $760 million of new debt for O'Hare and $1.5 billion for a multi-year public works program starting the middle of next year have also been approved.

"It's a great time for the city to be in the market," Bennett said

Bloomberg Markets

By Shruti Singh

October 14, 2021, 8:11 AM PDT Updated on October 14, 2021, 8:52 AM PDT

New York City Is Advised to Tout Bonds in Broadway's Playbill.

- **Program targets a 'captive and typically affluent demographic'**
- **Publication 'closely scrutinized' by city's theatergoers**

Like the show? Buy the bond!

New York City should advertise its bonds in Playbill, the program distributed at all theaters as well as venues such as Lincoln Center, Carnegie Hall and the Metropolitan Opera, one firm suggested in the city's latest Request for Proposal for Underwriting Services.

"This approach would directly target a captive and typically affluent demographic," underwriter Rice Financial Products Co. said in its response. "Playbill is closely scrutinized by theatergoers while awaiting the commencement of a performance and during intermission."

The average net worth of readers of Playbill "classic arts" programs distributed at venues that aren't Broadway theaters is $1.3 million, while the average household income is $217,000, Rice said. For those distributed at theaters, the income level of readers would be just below that.

Timing is everything, as they say in the theater. The Rice response was dated Feb. 3, 2020. Just over a month later, Broadway was ordered closed by then-Governor Andrew Cuomo, a shutdown which lasted almost 18 months as the pandemic raged.

Rice, which is based in New York City, was chosen last year as a co-manager to underwrite New York City and New York City Transitional Finance Authority and New York City Municipal Water Finance Authority bonds.

Ads Pondered
In its response, Rice said it didn't believe that advertising had a measurable impact on demand or pricing of the city's bonds "due to the very limited amount of 'Mom and Pop' retail investors. The vast majority of retail sales is through professional retail investor outlets, which get their information on upcoming bond sales through the same methods as institutional investors."

However, advertising have other "positive attributes," Rice added, "the primary one being that it promotes to the local population the City's efforts to invest in City infrastructure."

The company declined to comment on its proposal. A spokesperson for the comptroller said that office and the city haven't advertised city bond transactions since March 2020.

Bloomberg Markets

By Joseph Mysak Jr

October 15, 2021, 9:59 AM PDT

No, Lightfoot's Chicago Budget Does Not Make An 'Actuarial' Pension Contribution.

In late September, Chicago Mayor Lori Lightfoot delivered her 2022 budget address to the City Council. It was filled with a long list of new spending programs, including $400 million for community safety/violence reduction plans, $52 million for increased mental health services, $240 million for subsidized housing programs, $20 million for artists, and the list goes on. And among the achievements she lists is the following:

"In 2022, with the Budget we are proposing, we will climb our pension ramp, which means that for the first time in our city's history, and all four pension funds will be paid on an actuarially determined basis. This is huge."

Now, what she identifies as an "accomplishment," having finished the climb up the pension ramp, is actually a state law that left her no choice in the matter. But that's not the only incorrect part of her statement. Even having finally left the ramp behind, the plans are not funded on an "actuarially determined basis." They are funded based on the Illinois legislature's decision of a funding schedule which, for the police and fire plans, is sufficient to attain 90% funding in the year 2055, and for the Municipal and Laborers' plan, not until 2058. Yes, if you do the math, that's 34 and 37 years from now.

Continue reading.

Forbes

by Elizabeth Bauer

Oct 10, 2021

California Backed a Valley Rice Plant with Tax-Free 'Green Bonds.' What its Bankruptcy Means.

It looked like a promising clean-tech investment for California — a revolutionary Sacramento Valley plant that would turn rice straw into fiberboard.

State officials were so enthused, they helped finance the fledgling plant with more than $300 million in tax-exempt bonds, figuring the project would create jobs in the heart of California rice country while helping to reduce greenhouse gases emitted by rice straw. The bonds didn't put state taxpayers on the hook for the company's financial troubles.

Now the plant has filed for bankruptcy.

Continue reading.

THE SACRAMENTO BEE

BY DALE KASLER

OCTOBER 07, 2021 10:02 AM

Muni Bond-Backed Fiberboard Plant Seeks Bankruptcy Restructuring.

California company says the road to converting rice-farming waste into a wood substitute 'has not been smooth'

A Northern California plant for converting rice-farming waste into a wood substitute filed for bankruptcy protection after work stoppages and cost overruns triggered a roughly $344 million municipal-bond default.

CalPlant I LLC said the road to converting rice-farming waste into fiberboard from a new plant in Willows, Calif., "has not been smooth" and sought protection from creditors in the U.S. Bankruptcy Court in Wilmington, Del., on Tuesday to look for a potential buyer.

If no buyer emerges, CalPlant expects to hammer out a debt restructuring with senior bondholders, some of which have agreed to supply $30.1 million to finance the chapter 11 process through the purchase of new taxable bonds, according to court papers.

CalPlant Executive Chairman Jeffrey Wagner said the company began bringing its facility online in March 2020, shortly before the Covid-19 pandemic erupted in the U.S. The usual challenges associated with a startup were compounded by rolling out new technology during a global pandemic, he said.

Construction problems also plagued the operation, located about 85 miles north of Sacramento, Mr. Wagner said. It is among the first to make fiberboard from rice straw, a waste product of rice farming. The Sacramento Valley produces roughly a fifth of the nation's rice, the company said.

The plant has been making the fiberboard since late 2020 but isn't yet fully operational. Most of CalPlant's debt was taken on to build and operate the plant and was issued by the California

Pollution Control Financing Authority in the form of tax-exempt "green" bonds.

CalPlant has been in default on some of its debt, and forbearance agreements will expire Oct. 13.

Franklin Resources Inc.'s California High Yield Municipal Fund was among the original investors, and the asset manager still had CalPlant bonds in the portfolio as of May 31, according to a July regulatory filing.

Massachusetts Financial Services Co. also was holding the bonds at below par as of July 31, said a regulatory filing made last month.

After the plant opening was delayed by the pandemic, CalPlant defaulted on an interest payment in July 2020. Bondholders agreed to hold off on collecting debt payments.

Equity owners of the business include plywood maker Columbia Forest Products Inc., Teachers Insurance and Annuity Association of America and machinery manufacturer Siempelkamp, which also provided the engineering and design of the plant's production process.

CalPlant and Siempelkamp are disputing amounts they believe they owe each other, court documents show. Siempelkamp employees had to leave the plant and return to Germany due to the pandemic last year and couldn't return to the U.S. for several months.

CalPlant is represented in the bankruptcy by law firms Morris James LLP and Morrison & Foerster LLP. Paladin Management Group will provide restructuring advice. The cases have been consolidated under number 21-11302 and assigned to Judge John Dorsey in the U.S. Bankruptcy Court in Wilmington, Del.

The Wall Street Journal

By Becky Yerak

Oct. 5, 2021 4:17 pm ET

Muni-Backed Rice Fiberboard Project Files for Bankruptcy.

- **CalPlant ranks among biggest recent muni high-yield defaults**
- **Senior bondholders commit to restructuring plan and fresh cash**

CalPlant I LLC, a muni-financed maker of rice-based fiberboard in California, filed for bankruptcy on Tuesday with plans to slash debt and sell itself.

The company cut a restructuring deal with senior bondholders and intends to pursue a sale in bankruptcy court, according to a statement from CalPlant. Certain senior bondholders have also committed to provide some $30 million of fresh financing. The company will keep operating without disruption to stakeholders, including vendors and employees, according to the statement.

CalPlant has faced years of setbacks and dealt municipal-bond investors one of the biggest high-yield defaults in recent memory. But it recently had given reasons for hope: in 2020, the company finished building a plant that makes a unique type of fiberboard from rice cultivation debris called rice straw. Earlier this year, it won the ability from a California state agency to sell even more municipal debt to fully scale up operations.

The Chapter 11 filing allows CalPlant to continue operating while it works out a plan to repay creditors. The company listed assets and liabilities of as much as $500 million each in its bankruptcy petition. It had issued $344 million of unrated tax-free debt since 2017.

"The road to fully commissioning our plant has not been smooth," Jeffrey Wagner, CalPlant's executive chairman, said in the statement. The Chapter 11 filing will allow CalPlant to strengthen its finances and keep manufacturing its sustainable fiberboard, he said. The consulting team includes Morrison & Foerster as restructuring counsel, and Paladin as financial adviser and investment banker.

Spokespeople for top bondholders Franklin Resources, Invesco Ltd., and Sun Life Financial declined to comment. Spokespeople for Teachers Insurance & Annuity Association of America, which provided equity backing to the company, didn't respond to a request for comment.

The office of California Treasurer Fiona Ma, who supported the project as a voting member of the agency granting the company access to tax-exempt financing, is reviewing the bankruptcy filing, said her chief of staff, Genevieve Jopanda.

The case is CalPlant I LLC, 21-11303, U.S. Bankruptcy Court District of Delaware.

Bloomberg Markets

By Jeremy Hill and Romy Varghese

October 5, 2021, 6:02 AM PDT Updated on October 5, 2021, 11:50 AM PDT

Fitch: Planning Key for Public Power Clean Energy Shift Under Illinois Law

Fitch Ratings-New York-28 September 2021: Illinois' new clean energy law does not have an immediate credit effect on public power utilities, says Fitch Ratings. Effectively managing the transition away from coal and natural gas will be key to mitigating cost pressures related to stranded resources. Illinois is the first midwestern state to pass sweeping clean energy legislation, which may provide a blueprint for other states to move away from fossil fuels.

The Climate and Equitable Jobs Act aims to achieve 100% clean energy generation by 2050 by phasing out coal and natural gas plants and investing in renewable energy sources. Renewable energy, which made up 11% of the state's energy in 2020, must comprise 40% by 2030 and 50% by 2040.

The two publicly-owned coal-fired stations in the state, the Prairie State Energy Campus (PSEC) and Springfield City Water, Light and Power's Dallman Station, must reduce carbon emissions 45% by 2035, plus a three-and-half-year grace period, and would be required to close by 2045 unless they completely eliminate carbon emissions. Emissions reduction at these levels involve closing one unit or deploying carbon capture technology, which is currently cost prohibitive.

Many bonds issued to finance the units mature well beyond 2035. However, the obligations of the nine PSEC owners, and the nearly 250 public power utilities supporting them, are unconditional and require payment of the PSEC project's total costs, including operating expenses and debt service for the life of the debt whether or not the project is operating or capacity was interrupted or suspended. If the PSEC units become stranded and the owners are precluded from realizing the long-term benefit of continuing plant operations and production, the long-term financial burden and higher operating costs could weigh on credit quality or limit financial upside at best.

The Act does not affect the credit quality of PSEC's owners and participating utilities in the near- to medium-term, as we expect plant operations and the cost burden to remain stable. The law provides a long lead time for participants to manage the transition but if production is limited they will need to plan for curtailed availability of the project and diversify power resources away from PSEC.

It is unclear to what extent the new law will affect utility customer rates but increases are likely over the long term. While the law provides for subsidies of about $47 million a year beginning in 2024 for converting coal-fired power plants into solar or energy storage facilities, it remains uncertain what, if any, benefits may accrue to the PSEC owners.

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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.

Fitch: California Drought May Pressure Water Utilities' Margins

Fitch Ratings-San Francisco/New York-29 September 2021: The current drought in California could cut into water utility revenues and pressure financial margins, Fitch Ratings says. Statewide water conservation mandates could be announced this fall, and some water agencies have already initiated cutbacks.

After two years of dry conditions, California is experiencing a moderate-to-exceptional drought, and an exceptional drought has been declared for over 88% of the state. The federal Central Valley Project (CVP) and California State Water Project (SWP) provide much of the state's water from the Sacramento and San Joaquin river basins. The largest of the SWP reservoirs, Lake Shasta and Oroville, are only at 25% and 22% capacity, respectively, or 40% and 35% of historical averages. As a result, the SWP water allocation is just 5% of the requested amount, the lowest since the prior drought that ended in 2016. The CVP, which provides water to seven of the state's top-10 agricultural counties, implemented a 0% allocation for agricultural contractors.

Continue reading.

Puerto Rico Lawmakers Present Debt-Restructuring Bill.

- **Bill allows the issuance of new general obligation bonds**
- **Legislation also resolves ongoing fight over pension cuts**

Puerto Rico's House of Representatives filed a debt-restructuring bill Monday that proponents say will allow the U.S. territory to make its way out of bankruptcy while protecting pensioners and municipalities.

House Speaker Rafael "Tatito" Hernandez introduced the bill, calling it key to ending a 15-year economic slump that started after federal manufacturing incentives on the island were phased out. The bill authorizes the restructuring of some $18.8 billion in debt through the issuance of new bonds. If approved, the law will cut annual debt payments from $3.3 billion to $1.3 billion, Hernandez said.

Getting Puerto Rico lawmakers' approval for a new bond sale to restructure some general obligations and commonwealth-guaranteed debt is a key step before U.S. District Court Judge Laura Taylor Swain begins conformation hearings in early November on Puerto Rico's debt adjustment plan.

Puerto Rico, a U.S. territory of 3.3 million people, has seen its economy hit by hurricanes, earthquakes and brain drain. On Monday, the Bureau of Economic Analysis said the island's gross domestic product had increased just 0.3% in 2019 after contracting the previous three years.

Less Pain

The bill also restores public pension cuts that are being required by the Federal Oversight and Management Board as part of Puerto Rico's bankruptcy process. As Hernandez was holding his press conference, the oversight board said it had agreed not to cut any public pensions less than $2,000 per month if officials approve the new issuance of new debt. Previously, it had set the limit at $1,500.

With that new threshold, it will cost Puerto Rico's government about $44 million per year to restore the cuts, Hernandez said. Even so, the bill stipulates that the pension restitution can only take place if Medicaid funding to the island is increased enough to cover the expense.

The bill also earmarks more money for municipalities. Additionally, the law creates a single fund for all government money, rather than doling it out to public corporations as has been done in the past. Hernandez said that move would help the government better manage funds.

"It's time for us to change the pertinent laws and, if it's necessary, our constitution to keep Puerto Rico from falling into bankruptcy again," Hernandez said.

Bloomberg Markets

By Jim Wyss

September 27, 2021, 10:18 AM PDT

[Connecticut Waterfront Project Cleared in 2007 to Sell Munis.]

- **Bridgeport's Steelpointe Harbor to issue almost $50 million**
- **Developer envisions adding three apartment buildings, hotel**

A district set up to transform part of Bridgeport, Connecticut's waterfront plans to sell about $50 million of unrated municipal debt as soon as this week, in what amounts to a bond-market bet on future development for which financing has yet to be secured.

A subsidiary of RCI Group has built a 220-slip marina, a 150,000-square-foot store for outdoor retailer Bass Pro Shops and a mixed-use lighthouse building since the project was approved in 2007. But the developers of the largely vacant Steelpointe Harbor on Long Island Sound are still betting they can create a neighborhood of apartments, shops and offices about 60 miles (97 kilometers) from New York City, on the site of a former steel works.

A limited group of as many as 35 sophisticated investors can join the wager by purchasing tax-exempt bonds backed by an increase in property taxes generated by new development in the district, according to the offering statement for the debt.

More than $30 million of bond proceeds will reimburse Bridgeport Landing Development LLC for the construction of a bulkhead and $5 million will go to the city for street work. The RCI subsidiary has spent an additional $18.2 million in public infrastructure and $51.5 million in private improvements, the offering document says.

Homework Required

"Projects like these can change the entire character of a city's waterfront," said Adam Weigold, head of municipal strategies at Manulife Investment Management, which toured the site last week. "These deals are not without risk, and I think you really need to do your homework if you are going to get involved."

He said he plans to buy the debt.

"We've been involved in waterfront development project financings in the past, and it's great to see previously underutilized spaces turned into an attraction," he said.

Tax-increment-financing bonds were among the riskiest types of securities in the $4 trillion municipal market even before the pandemic, which only added to the financial strains on districts relying on sales- and hotel-tax revenue. This month, bonds sold for a conference center in North Kansas City, Missouri, and secured by hotel-related taxes, defaulted.

High-yield munis have returned 6.6% this year, beating the 4.5% earned by their U.S. corporate counterparts, according to Bloomberg Indices. The riskiest munis have benefited from a reopening economy, federal stimulus and demand for junk offerings amid near-record low yields.

Apartments, Hotel

Bridgeport Landing Development plans three apartment buildings with a total of 370 units and a 120-room hotel at an estimated cost of $135 million, but it hasn't obtained financing, according to the bond-offering document. Hotels, in particular, face a long recovery from the pandemic, which devastated business and leisure travel.

And while some New Yorkers have sought out homes in suburban Connecticut because of the pandemic, it’s unclear whether there’s enough demand for apartments in Bridgeport, a former manufacturing center where 22% of residents live in poverty.

However, location is also among one of Steelpointe’s strengths. The planned neighborhood is an 8-minute walk to the Metro-North and Amtrak rail station and is bounded by Interstate 95. The commuter train to Manhattan on weekday mornings can take as little as 90 minutes.

Bridgeport, a city of about 145,000, is in Fairfield County, one of the wealthiest in the U.S. As the county’s western part becomes pricier and denser, more people may move to cities such as Bridgeport, according to the offering statement.

Given the lack of available housing and changing location preferences amid the pandemic, the development has a strong possibility to tap into demand for larger apartments with easy access to major urban employment centers, said Jay Lybik, national director of multifamily analytics for Apartments.com.

Buyers leaving New York have boosted house prices across Connecticut, putting ownership out of reach for many households, he said. The Bridgeport submarket apartment vacancy rate is 2.2%, showing there’s solid demand for renting in the area. There’s also been limited development over the past decade, with only 850 new units delivered and less than 100 under construction.

Risk Outlined

The tax-increment payments depend on the project’s timely completion by April 2025. If there’s a revenue shortfall, property owners in the district will have to make assessment payments. The developer is currently the district’s only property owner.

“This limited diversity in the obligation to pay real property taxes, including the tax-increment payments, and special assessments presents a significant risk to holders of the bonds,” according to the offering document. “Failure of the master developer to pay real property taxes and special assessments when due could result in the rapid, total depletion of the debt-service reserve funds.”

RCI, which is based in Miami Beach, didn’t respond to an interview request about the bond sale.

Tax-increment-financing bonds that depend on economically sensitive taxes and those that rely on developing an area tend to be riskier, said Lisa Washburn, a managing director at Municipal Market Analytics.

The sector has a default rate of 1.34%, similar to the aggregate default rates for riskier market sectors, she said. However, default rates among those sectors vary: It’s 0.8% for local housing and as high as 9.13% for retirement communities, Washburn said.

Bloomberg Markets

By Martin Z Braun and Nic Querolo

September 29, 2021, 4:00 AM PDT Updated on September 29, 2021, 11:10 AM PDT

Public Finance: Election Do's and Don'ts for Michigan School Districts

THE ACT

School district board members, administrators and employees are required to abide by the Michigan Campaign Finance Act. The Act prohibits the contribution of public funds or resources to a campaign for a candidate or ballot proposal while permitting the dissemination of objective factual information and permitting employees to volunteer services or express their views on their own time. Board members and policy-making administrators (at least the superintendent) may engage in advocacy at any time as long as no district resources are used to disseminate those views.

Section 57 of the Campaign Finance Act, in relevant part, states as follows:

(1) A public body or a person acting for a public body shall not use or authorize the use of funds, personnel, office space, computer hardware or software, property, stationery, postage, vehicles, equipment, supplies, or other public resources to make a contribution or expenditure or provide volunteer personal services that are excluded from the definition of contribution under section 4(3)(a)…This subsection does not apply to any of the following:

1. The expression of views by an elected or appointed public official who has policy making responsibilities.
2. Subject to subsection (3)*, the production or dissemination of factual information concerning issues relevant to the function of the public body.
3. The production or dissemination of debates, interviews, commentary, or information by a broadcasting station, newspaper, magazine, or other periodical or publication in the regular course of broadcasting or publication.
4. The use of a public facility owned or leased by, or on behalf of, a public body if any candidate or committee has an equal opportunity to use the public facility.
5. The use of a public facility owned or leased by, or on behalf of, a public body if that facility is primarily used as a family dwelling and is not used to conduct a fund-raising event.
6. An elected or appointed public official or an employee of a public body who, when not acting for a public body but is on his or her own personal time, is expressing his or her own personal views, is expending his or her own personal funds, or is providing his or her own personal volunteer services. The basic rule is that school district resources may not be used to advocate for a candidate or ballot proposal.

The basic rule is that school district resources may not be used to advocate for a candidate or ballot proposal.

The following “Do’s and Don’ts” cover commonly asked questions regarding compliance with the Act.

DO’S

- School district employees may engage in campaign activities that support candidates and ballot proposals on their own time (not when acting on behalf of the district as part of employment) and as long as school district funds, facilities and other resources, including district emails and social media accounts, are not used.
- Anyone may recommend individuals for appointment to a campaign committee, but the school district should not make any appointments.
- Campaign committee members and volunteers may attend school district meetings regarding the election and make public comments as members of the audience at those meetings to advocate and

pass out literature.

- Information disseminated by the school district must be factual and objective. Factual and objective information may be displayed in school district buildings other than on election day where a building serves as a precinct location.
- The school district may allow a campaign committee to use its facilities, but only on the same terms as it would allow any other nonprofit or other citizens or community group to use school district facilities, and the campaign committee must reimburse the school district for any costs incurred by the school district which would not otherwise have been incurred.
- The school district may produce or disseminate debates, interviews or commentary regarding an election if it's done in the regular course of broadcasting or publications (e.g., the normal, routine publication schedule of the broadcast or publication). n The Board of Education may adopt resolutions stating a position on ballot proposals relating to school district purposes or funding.
- Members of the Board of Education and superintendent are public officials and may engage in advocacy on ballot proposals that relate to school district purposes or funding, provided that, except as described above, school district resources are not used to disseminate those views.
- The school district must maintain objectivity. Steer clear of subjective words and phrasing in informational materials including "needs," modifiers such as "essential" or "critical," or projections of consequences of passage or failure or impact of projects.

DON'TS

- The school district may not give or loan paper, pencils, computers, duplicating equipment, printing supplies, postage and sundry items to a campaign committee or candidate.
- The use of any school district facilities, including emails, phones, or social media accounts, by a campaign committee for the purpose of contacting voters or promoting a yes vote is prohibited.
- Faculty offices, lounges, school district bulletin boards, and other areas within the school district building may not be used to disseminate literature supporting a candidate even if printed by an outside organization, and a campaign committee may not send campaign literature home with students.
- The school district's website and social media pages and accounts may not provide Internet links to campaign sites, organizations, commentary or editorials.
- District officials and employees should not add taglines relating to the proposal or the election to their district emails. n Campaign literature may not be displayed in school district buildings.
- A school district official is prohibited from using school district resources or social media accounts to send a mass email, mass mailing or other communication that expressly advocates for a candidate or ballot proposal.
- Unions and associations may not use school district resources (including mailboxes) to communicate with their members about election campaign matters.
- Do not suggest that the debt millage rate will be a fixed number. It will not. The rate will fluctuate with changes in the tax base.

IDENTIFYING INFORMATION REQUIREMENT

Information disseminated by a school district within 60 days before the general election or within 30 days before the primary election where a ballot question appears must contain certain identifying information if the communication is targeted to the relevant electorate. The identifying information included on the communication should generally be in the following form: "Paid for by ABC School District, 123 Anytown Avenue, Anytown, Michigan." The identifying information included on printed material must be in a place and in a print clearly visible and readable by an observer. Prerecorded telephone messages (robocalls) should also include the school district's telephone number.

Wednesday, September 22, 2021

[S&P ESG U.S. Public Finance Report Card: Texas Governments And Not-Fo--Profit Enterprises]

Key Takeaways

E (Elevated): With a large geographic area and vast Gulf coastline, Texas is susceptible to various acute and chronic physical risks, which elevates its environmental exposure when compared to many U.S. states. Furthermore, some areas are at risk for prolonged periods of drought that can pose unique operating challenges, particularly for utilities in the state. Compounding the physical risks are federal policy recommendations for energy transition to renewable from carbon-based generation sources. The oil and gas industry has, for generations, served as a hallmark of Texas' economic development and supports core economic activity for many regions of the state. That said, the state is one the country's leaders in renewable energy, which, in our view, provides a pathway for future economic and employment opportunities in a green economy.

S (neutral): The state's significant population expansion over the last decade–the highest nominal growth in the country–-positions it to maintain robust economic productivity and activity compared to its peers. Its relatively younger demographic is also unlike most other U.S. states with large dependent populations, particularly with one of the highest percentages of uninsured residents resulting in higher costs for uncompensated care and Medicaid payer mix.

G (neutral): Texas has a well-established history of developing policies and executing on plans to address emerging material risks. However, our neutral view of governance reflects previous credit pressures from the state's two largest pension systems–Teachers Retirement of Texas and Employees Retirement System of Texas–which have historically exhibited poor funding discipline, but with reform efforts and benefit changes long-term stability may improve. In addition, the severe winter event in February 2021 underscored risk management gaps related to Electricity Reliability Council of Texas' (ERCOT) oversight of the state's electric grid that may only be partially mitigated by recent legislative changes.

Continue reading.

23 Sep, 2021

Audit Warns CA Could Lose Over $330M in Rental Aid.

The way California defines whether or not emergency rental assistance has been "obligated" could put it at risk of forfeiting funds, a state watchdog says.

State and local governments administering emergency rental assistance programs may have to forfeit unspent funding if they do not get the money to renters by the end of the month.

While some programs have done better distributing the money than others, a recent audit of California rental assistance funds highlights a discrepancy between how the state and federal government classify the money as "obligated." As a result of this issue, California could be at risk of losing $337 million in emergency rental aid, according to the report by California State Auditor Elaine Howle.

The U.S. Department of Treasury awarded jurisdictions in California $2.6 billion in emergency rental assistance in the first round of funding. Of that, California's Department of Housing and Community Development is managing $1.8 billion.

Continue reading.

Route Fifty

By Andrea Noble

SEP 24, 2021

New Statutory Requirements if Local CA Agencies Want to Continue Teleconferenced Public Meetings with Social Distance Modifications.

During the COVID-19 pandemic, Governor Newsom authorized local agencies to conduct teleconference meetings without complying with certain Brown Act requirements to allow for social distancing during COVID-19, i.e., the following "Social Distance Modifications":

- Agenda not required to be posted at each teleconference location
- Each teleconference location not required to be listed on the agenda
- Each teleconference location not required to be open and accessible to the public
- Quorum of the legislative body not required to participate within the jurisdiction's boundaries
- Legislative body not required to provide opportunity for the public to comment at each teleconference location

The Governor's authorization expires September 30, 2021. On October 1, 2021, urgency legislation AB 361 takes effect with new statutory protocols for local agencies to hold teleconference meetings with Social Distance Modifications.

Under AB 361, during a proclaimed state of emergency, a local legislative body can continue to utilize the Social Distance Modifications for teleconference meetings if, at least every 30 days, it makes findings that 1) it has reconsidered the circumstances of the state of emergency, and 2) the state of emergency continues to directly impact the ability of members to safely meet in person **and/or** state or local officials continue to impose or recommend social distancing measures. Alternatively, if the local agency is not utilizing the Social Distance Modifications, it can opt to meet in person and not provide a call-in or internet-based service option at all.

AB 361 imposes the following requirements to agencies who opt to continue to hold teleconference meetings utilizing the Social Distance Modifications:

- The agenda and any other notice of the time of the meeting must include notice of how the public may access the meeting and provide comment via a call-in option or an internet-based service option.
- Agencies cannot require public comments to be submitted in advance and must provide an opportunity for the public to offer comment in real time.
- Agencies that provide timed public comment cannot close the public comment period until the time

period has elapsed.
- Agencies must allow a reasonable amount of time per agenda item to allow the public to offer comment or otherwise be recognized for the purpose of providing comment.
- Agencies cannot require a member of the public to register or provide information to attend a public meeting. However, AB 361 acknowledges that a third-party internet website or online platform not under the agency's control may require registration to participate or provide public comment.
- If the broadcast of the meeting is disrupted or a disruption within the agency's control prevents public comment using the call-in or internet-based service options, the legislative body cannot take any further action on any agenda item until the disruption is resolved.

Monchamp Meldrum LLP – Carlyn Drivdahl

September 21 2021

Puerto Rico House to Unveil Bond-Cutting Bill Next Week: Speaker

- **Legislature aims to approve new bonds by Oct. 4, Speaker says**
- **Bill would allow the island to restructure $22 billion of debt**

Puerto Rico lawmakers plan to file legislation next week that allows the commonwealth to sell new bonds to replace existing debt, a necessary step to help finalize the island's record bankruptcy.

The commonwealth's House of Representatives is set to file the bill as soon as Monday, Rafael "Tatito" Hernandez, speaker of the House, said in a telephone interview. The legislature plans to pass a debt-restructuring bill by Oct. 4 for Governor Pedro Pierluisi to consider, Hernandez said.

"We need to fix this and then focus on economic development and job growth," Hernandez said. "This is a great step in the right direction for the future of Puerto Rico."

Getting Puerto Rico lawmakers' approval for a new bond sale to restructure $22 billion of general obligations and commonwealth-guaranteed debt is a key step before U.S. District Court Judge Laura Taylor Swain begins conformation hearings in early November on Puerto Rico's debt adjustment plan.

To get enough votes to pass the House, the legislation will include issues beyond cutting Puerto Rico's obligations, including programs for municipalities and retirees, Hernandez said. Lawmakers will be working on the legislation as bondholders wrap up voting on the debt adjustment plan that Puerto Rico's financial oversight board submitted to the court earlier this year.

Island lawmakers are the final group to weigh in on restructuring the commonwealth's debt after competing bondholder pools, insurance companies and unsecured creditors approved the debt adjustment plan earlier this year. Without legislative approval, the financial oversight board, which is overseeing the bankruptcy, may need to ask the court to authorize new bonds. That's an unusual move in the $4 trillion municipal-bond market where state legislatures and local governments typically approve debt sales.

"Our takeaway from our recent conversations with the governor and the legislative leadership is that all parties involved are determined to get Puerto Rico out of bankruptcy as soon as reasonably possible," said Matthias Rieker, spokesperson for the financial oversight board.

The legislation also involves how to repair Puerto Rico's broke pension system, which owes current and future retirees an estimated $55 billion. The oversight board has proposed cutting some pensions by 8.5% and guaranteeing that no monthly pension falls below $1,500. The House bill would boost that threshold to $2,000, and also help restore any pension cuts with any future surplus revenue, Hernandez said.

"We will be disciplined," Hernandez said. "We will do our work, but if there's a surplus we will restore our pensions and invest in retirees."

While the board is seeking the retirement changes, island lawmakers are reluctant to cut pensions. The governor has said he wouldn't support legislation that reduces any retirement benefits.

Bloomberg Markets

By Michelle Kaske

September 21, 2021, 1:16 PM MDT

Lawsuit Over Harrisburg's $360M Debt Debacle Can Proceed.

A Commonwealth Court panel refused Thursday to kill a lawsuit over the $360 million incinerator debt debacle that plunged Harrisburg into state receivership, but it did reduce the number of players involved in that fight.

In a 95-page opinion by Judge Michael H. Wojcik, the court removed Gov. Tom Wolf, the state and the Department of Community and Economic Development as plaintiffs in the suit.

That leaves the city, its state-appointed coordinator Marita Kelley and Capital Area Water, the successor to the Harrisburg Authority, to keep pursuing claims that financial and legal advisors and engineers misled city officials and others down a fiscal rabbit hole on a project that had no hope of paying its debts.

Wojcik's court also removed Foreman & Foreman, the law firm that was solicitor to the Harrisburg Authority, the operator of the problem-plagued incinerator, as a defendant in the case. Wojcik found that firm did not commit any breaches of propriety in its representation of the Authority as that body sought funding and debt guarantees for the failed incinerator project.

Commonwealth Court directed the remaining defendants – RBC Capital Markets Corp.; Obermayer, Rebmann, Maxwell & Hippel, LLP; Buchanan Ingersoll & Rooney, P.C.; Eckert, Seamans, Cherin & Mellot, LLC; Public Financial Management, Inc.; and Buchart Horn, Inc., to answer the plaintiffs' claims that the city is due unspecified financial damages for what they contend was bad and misleading advice given during the failed attempt to finance the incinerator project into becoming something other than an overly-expensive white elephant.

The city and authority plaintiffs contend the defendants, who were part of a working group advising officials on the incinerator project and its financing, should have told city officials and others that there was no hope the incinerator would be able to generate enough income to pay off the enormous debt it was amassing. City officials relied on the working group's assurance that the incinerator debt would be self-liquidating when they agreed to use the city's taxing power to guarantee the borrowing for the project, the suit which was filed in 2018 states.

Wojcik agreed with the defendants that Wolf, the state and DCED lacked legal standing to pursue the suit. He rejected the defendants' arguments that city officials and the other plaintiffs failed to properly argue specifics of their allegations of impropriety, along with contentions that the city missed the statute of limitations deadline for filing suit over matters that occurred in the early to mid 2000s.

The city's ultimate inability to pay for the incinerator debt pushed Harrisburg to the edge of bankruptcy. The situation was so bad that in 2012 then-Gov. Tom Corbett placed the city under state receivership to find a way out of the financial mess.

Harrisburg exited the receivership in 2014 but remained classified as a financially distressed municipality by the state. It still feels the after-shocks of the debt crisis.

pennlive.com

By Matt Miller

Sep. 09, 2021

[S&P ESG U.S. Public Finance Report Card: Florida Governments And Not-Fo--Profit Enterprises]

Key Takeaways

E (elevated): Florida's vast coastline, low elevation, and susceptibility to severe weather events increase its environmental risks when compared with those of most U.S. states. The chronic long-term effects of climate change and sea-level rise also elevate credit quality risk for Florida issuers, particularly absent comprehensive adaptation and resiliency planning.

S (neutral): We view the sustained population growth–generally outpacing that of the nation–as a social opportunity for Florida, driving economic and job growth. However, the state's relatively high age-dependent population and potentially outsized exposure to disruptive macroeconomic health and safety events, given its large leisure and hospitality sector, are viewed as offsetting factors resulting in our overall neutral assessment.

G (neutral): While we view risk management, culture, and oversight positively due to the presence of state-level programs designed to help mitigate elevated environmental risks, we view the state's governance structure that provides consistency and transparency as neutral, as it's generally comparable with that of highly rated U.S. states.

[Continue reading.]

9 Sep, 2021

[S&P State Brief: Montana]

[Read the brief.]

14 Sep, 2021

Fitch: Utah and Idaho Stand Out as U.S. States' Job Growth Strengthens in July; August Growth Slows

Fitch Ratings-New York-10 September 2021: State employment recovery notably strengthened in July with two states now seeing job growth significantly exceeding pandemic related job losses, according to Fitch Ratings in its latest U.S. States Labor Markets Tracker. State gains slowed considerably in August based on the most recent national report.

The median jobs recovery for states increased in July to 73% from 69% in June. As of July, 45 states have recovered over 50% of the jobs lost at the peak of the pandemic. Hawaii, New Mexico, Wyoming, Louisiana, and Alaska remain below 50% jobs recovered, despite some improvement over recent months.

Job growth in Idaho and Utah is far outpacing all other states. "Utah job growth is up 130% since February 2020 while Idaho job growth has outpaced pre-pandemic levels by over 120%, making them the only two states to have exceeded the pre-pandemic employment levels of last February," said Senior Director Olu Sonola.

Conversely, Alaska, Wyoming and Kentucky remain notable job growth laggards. "Employment recovery in Alaska, Wyoming and Kentucky has declined between 1% and 3% from March of this year, a rather stark contrast to employment recovery rate for U.S. states as a whole, which is up by 10%," said Sonola. Job growth also fell in Oklahoma and Tennessee.

More recent national data for August shows employment growth slowed, largely due to the impact of the delta variant on pandemic-sensitive sectors such as leisure and hospitality (L&H). "The flat growth in national L&H employment in August does signal more downside risk for this sector," said Sonola. In July, gains in L&H had been the largest contributor to the employment recovery.

Fitch's latest "U.S. States Labor Markets Tracker" is available at www.fitchratings.com.

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[Kansas Cities Unlikely to Find Shortcut to Fast Growth Through STAR Bonds.]

Kansas's urban areas are the only part of the state that is growing in population; the results from the 2020 Census make that clear. Despite its own self-conception as part of the heartland of America, the Sunflower State is, increasingly, a pretty "citified" place.

This dynamic — a slowly growing and diversifying urban population within a state whose political elites still mostly embrace the values of rural conservatism — can explain a lot. It helps explain the persistence of an inferiority complex in many Kansas cities, with the people of Wichita or Kansas City, Kan., looking south or east, comparing themselves to cities in other states that aren't as defined by the counties of red that surround them.

It may also help explain the push by these cities and their elected representatives to make use of whatever financing they can to change, innovate and most of all expand. And this is what leads us to STAR bonds.

Sales Tax and Revenue (STAR) bonds are a strange financial instrument. Only two other states — Illinois and Nevada — have allowed their creation, and even they haven't made use of this fiscal slight of hand for over a decade.

In Kansas, however, urban governments have regularly sought permission to sacrifice the sales tax revenue that ought to go to Kansas's state and municipal programs in order to raise funds for construction which they imagine will bring major corporate attractions to Kansas.

The Prairie Fire Entertainment District in Overland Park, the Sports Forum in Wichita, the Heartland Park Racetrack in Topeka — STAR bonds made them all.

But did it make them actually successful? A recent accounting of STAR bond programs concluded that only 3 of the 16 projects which the state has approved, at a cost of nearly $900 million in tax revenue, actually meet the economic requirements of the instrument. The auditors found little evidence of these projects drawing new tourism dollars to Kansas, and even less evidence that using these bonds to finance construction has led to economic development in areas that weren't good candidates for ordinary capital investment anyway.

Defenders of the STAR program point to, among other things, the increased property tax values of the developed areas (though the unfunded maintenance liabilities these developments have brought with them usually goes unmentioned).

Often, though, the defenders fall back on a plaintive cry unfortunately common in the urban parts of Kansas: Business expansion is essential to the "general economic welfare" of the state. If we're not willing to sacrifice the sales tax revenue normally used to fund voter-approved (and universal, rather than city-centric) government programs for the sake of attracting a new Topgolf franchise to Wichita or building a new speedway in Kansas City, then aren't we showing a lack of confidence in our future?

These are complicated decisions, to be sure.

But still I wonder if urban Kansans sometimes exhibit a "build it and they will come" mentality, in the somewhat desperate hope that they can suddenly change into something other than slow-growth cities on the Great Plains.

If that is so, I would simply say: The work of making Kansas's culture and economy reflect its increasing urban reality will be a long and necessarily local one. Using needed future tax revenue to build a new waterpark may has its merits, but such top-down decisions are unlikely to provide a shortcut.

The Topeka Capital-Journal

by Russell Arben Fox

Sept 12, 2021

Banks Vying to Hold City of Chicago Deposits Must Provide More Data on Mortgages, Home Equity Loans.

The City Council's Finance Committee approved an ordinance that would require banks seeking to hold up to $400 million of the city's money to post even more detailed information on the city's open data portal.

Banks holding Chicago tax dollars or vying to becoming municipal depositories would be required to come more clean than ever about lending practices, under a stronger disclosure ordinance intended to reverse longstanding lending inequities.

The City Council's Finance Committee on Monday approved an ordinance championed by Housing Committee Chairman Harry Osterman (48th) that would require banks seeking to hold up to $400 million in city money to post even more detailed information on the city's open data portal.

Chicago's "Responsible Banking Ordinance" would be revised to include:

• The amount of each home equity loan made in Chicago, by census tract.

• Denial reasons for home mortgages, by race, sex and census tract.

• The number and location of banks in Chicago.

• Employee demographics by job category from all banks with more than 500 employees.

Before voting to designate the city's 13 municipal depositories, the ordinance would also require the Finance Committee to hold an annual hearing to discuss home lending trends.

Osterman said his goal is to "empower" aldermen with the information they need before they decide where to deposit Chicago's tax dollars.

"This is not something that's gonna solve the lending inequities overnight. But it's a piece of a united front on the city, state, county and federal level to really make sure that we're changing things and lifting people up," Osterman said.

"The lenders have an ability every single day to help do that. We're gonna be seeing how this goes with the information on where the loans are going. It's all about an equitable recovery as we come out of COVID. … We are not in the business to regulate banks. But it is our business to ensure that we are stewards of the interests of the residents that we represent."

City Comptroller Reshma Soni said the 500-employee benchmark for detailed personnel information was included for good reason.

The city is trying to reverse longstanding lending inequities by making it easier for smaller, local banks to become municipal depositories.

"We want to be able to balance the smaller banks. Encourage them to come in and do business with us. So we're trying to ensure this is not unduly burdensome for them," Soni said.

Soni said she hopes to implement the new disclosure requirements in time for the upcoming request for proposals on municipal depositories. But after talks with the Illinois Banking Association, she acknowledged: "There are gonna be some growing pains and some implementation delays. … They're gonna do their best to get us as much as we can for this round with full implementation happening next year."

Banks designated as "municipal depositories" have long been accused of investing far more money in majority-white neighborhoods than in communities of color.

Those discriminatory practices have made it more difficult for African Americans and Hispanics to secure home mortgages, business loans or loans for home improvements. That has perpetuated a wealth gap and the historic disinvestment in South and West Side neighborhoods.

The most recent study documenting those inequities was conducted by WBEZ-FM (91.5). It showed banks lend 12 cents in Black neighborhoods and 13 cents in Hispanic neighborhoods for every $1 loaned in white neighborhoods.

To promote "diversity, inclusion and equity" in lending, Chicago's "Responsible Banking Ordinance" already requires banks receiving city deposits to submit detailed information about lending practices.

In a scathing audit released earlier this month, retiring Inspector General Joe Ferguson concluded the city continues to deposit millions of tax dollars in banks that engage in discriminatory lending practices.

Despite "rigorous collection" of information on lending practices, the audit concluded the Department of Finance conducted "no substantive evaluation" of that data.

Chicago Sun-Times

By Fran Spielman

Sep 13, 2021

California Sells $2.1 Billion of Munis Amid Newsom Recall.

- **Ten-year California GO bonds trading at above average yields**
- **Spread widening after vote may create buying opportunity**

California sold $2.1 billion of tax-exempt general-obligation bonds Tuesday, just as its citizens cast their ballots to decide the fate of Governor Gavin Newsom in a recall vote.

Despite the political tumult, the sale came on the heels of an outlook boost to positive from stable.

Credit ratings for the state, which is the largest issuer of muni bonds, are at the highest levels in decades as demand for muni-bonds soars.

Ultimately, the vote may amount to little more than a blip for investors facing high taxes and the prospect of changes to the cap on federal state and local deductions on the horizon.

“It has definitely added a different facet to the deal, but when you’re looking at deals that are 10, 20, 30 years in maturity, investors should look long term and be prepared to hold a credit through multiple election cycles,” said Dora Lee, director of research at Belle Haven Investments.

The state sold bonds to investors at a yield of 0.06% for debt that matures in 2022 with a 5% coupon, 1 basis point less than top-rated benchmark securities, according to repricing data collected by Bloomberg. Longest dated securities priced with a 2.48% yield and a 2.4% coupon. Yields on most maturities dropped slightly from those offered to investors in preliminary pricing, indicating strong demand for the deal, the data shows.

Ten-year California general obligation bonds are trading at yields about 6.8 basis points more than benchmark securities, according to Bloomberg data. That’s slightly higher than the average spread of 5.6 basis points over the last three months, the data show.

The state’s credit is in “excellent shape, and absent the recall, we think worthy of tight spreads,” wrote John Ceffalio and Patrick Luby, municipal analysts at CreditSights in a report evaluating the bond sale published earlier this month. The state is flush with cash, reporting higher than expected revenue collections and receiving $27 billion from the American Rescue Plan.

Ceffalio and Luby said that a successful recall could push spreads “modestly” wider as investors fear that the state’s strong governance could slip. They said that some replacement candidates seem “ill-suited and lightly qualified” to manage the state’s budget.

Still, any spread widening could create an opportunity. “In our view, if California credit spreads widen in the aftermath of the election outcome, investors should consider it as a buying opportunity,” wrote Barclays Plc strategists Mikhail Foux, Clare Pickering and Mayur Patel in a Sept. 3 research note.

Bloomberg Markets

By Nic Querolo and Danielle Moran

September 14, 2021, 9:32 AM MDT Updated on September 14, 2021, 1:03 PM MDT

— With assistance by Natalia Lenkiewicz

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5 Things Wrong with Illinois Holding 30% of U.S. Pension Bond Debt.

Pension obligation bonds, like payday loans, are a sign of mismanaged finances. Illinois not only leads the nation for using that risky debt, it owes the bulk of it.

It is bad Illinois has the nation’s worst pension crisis, but state politicians have made it worse by using risky debt to delay the day of reckoning, and done so to the point that Illinois now owes 30% of the nation’s pension obligation bonds.

Pension obligation bonds are a form of debt used by state or local governments to fund their pension deficits. Illinois holds $21.6 billion of the nation's $72 billion pension obligation bond debt.

Continue reading.

Illinois Policy

by Adam Schuster & Aneesh Bafna

September 10, 2021

Chicago to Unveil Bank-Loan Data in Bid to Boost Home Ownership.

- **Council approves ordinance to increase visibility of loan data**
- **Measure to 'hopefully break down some barriers': finance chair**

The Chicago City Council approved a measure on Tuesday to boost transparency around the lending practices of the city's banks and help address home-ownership disparities in the nation's third most-populous city.

The "Lending Equity Ordinance" will publicly share lending data and require an annual hearing on the information with the committee on finance, Alderman Harry Osterman, a chief sponsor, said on Twitter. The measure also collects data on home equity loans and reasons for denial of loans by the banks serving as municipal depositories for the city. Such banks held about $725.3 million of the city's cash and certificates of deposit as of Dec. 31, according to Chicago's annual comprehensive financial report.

"Transparency is needed to inform Chicagoans about the institutions where their public funds are being deposited," according to the ordinance.

The measure publicizes data by Census tract such as home-loan amounts and interest rates that banks provide when they bid annually for the city's business. Disclosures about consumer and commercial loans in the city are also required. In the past, the city's finance department didn't evaluate whether banks provided "inclusive and equitable financial services throughout Chicago" even though it collected data, according to an August report by the city's inspector general.

Now that will change and banks' lending practices may influence where the city deposits its funds, according to the ordinance.

The ordinance is "going to give us a better understanding of lending activity," Alderman Scott Waguespack, head of the finance committee, said during the City Council meeting Tuesday. It will "hopefully break down some barriers," he said.

Chicago is following cities with similar oversight like Pittsburgh and Cleveland. The move comes after recent reports showed lending practices have contributed to the city's racial homeownership gap. Last year, local NPR affiliate WBEZ and the nonprofit newsroom City Bureau revealed that for every $1 banks loaned in Chicago's White neighborhoods, 12 cents went into the city's Black neighborhoods and 13 cents in Latino areas.

The gap in Chicago exemplifies the disparities across the country, which were only exacerbated during the pandemic. While U.S. White homeownership reached 74.2% in the second quarter of

2021, up from almost 70% in 1994, Black homeownership increased to 44.6% and the Hispanic level to 47.5% from under 42% for both in the same period, according to Census data.

Illinois bankers, however, have concerns about the new rules. The industry aims to improve mortgage access and address inequality in Chicago, particularly among Black and Latinx mortgage applicants, according to an emailed statement from the Illinois Bankers Association.

But “this ordinance creates more hurdles within an already daunting application process, which could further discourage small, community banks and minority-owned banks from applying and working with the city,” the statement said.

Bloomberg

By Shruti Singh

September 14, 2021, 2:57 PM MDT

— With assistance by Alexandre Tanzi

Chicago Finally Getting Serious About Where It Deposits City Cash.

The city government of Chicago moves hundreds of millions of dollars in and out of the bank every few months. Taxes, fees, fines and bond sale proceeds come in; paychecks, contractor payments and other spending or investments go out.

Community Advocates Break Down Proposed Changes to Community Reinvestment Act Regs
As of December 31, 2020, Chicago had $725 million in the bank — multiple banks, actually, as the city typically designates more than a dozen banks every year as municipal depositories.

The City of Chicago requires banks seeking designation as municipal depositories to have an authorized representative sign a pledge every year that the bank will avoid discrimination in lending on the basis of neighborhood, race, national origin, sex, source of income, sexual orientation and other factors. The pledge notes that failure to comply can result in losing designation as a municipal depository. It’s been this way since 1974, when Chicago passed its Responsible Banking Ordinance, the first such ordinance of its kind. Many cities across the country have since passed their own responsible banking ordinances — some more stringent, some less so.

Continue reading.

NEXT CITY

by OSCAR PERRY ABELLO

SEPTEMBER 14, 2021

Javits Center Debt Downgraded as NYC Tourism Struggles to Revive.

- **Moody’s lowers credit ratings on about $1 billion of bonds**

• **Javits senior bonds lowered to A2, subordinate to Baa2**

New York's Jacob K. Javits Convention Center, which was turned into an emergency hospital during the first wave of Covid-19, had about $1 billion of municipal bonds downgraded by Moody's Investors Service as tourism struggles to recover from the pandemic.

Moody's lowered ratings on $770 million of senior debt issued by the New York Convention Center Development Corporation one level to A2 from A1. The rating on $220 million of subordinate debt was lowered two levels to Baa2, the second-lowest investment grade, from A3. The outlook on the bonds is negative.

"The continuing impact of the coronavirus pandemic has created severe and ongoing disruptions in the New York City travel and tourism market and therefore pledged revenue receipts," Moody's said in a news release. "As the world continues to grapple with new virus variants, an uncertain recovery path faces travel and tourism as well as New York City's office occupancy and business travel."

Debt issued for the Javits Center is payable from a $1.50 per-night fee on occupied hotel rooms in New York City and the senior bonds also get backing from a state agency that finances mortgages. The city's convention and visitors bureau projects tourism won't return to pre-pandemic heights of 66.6 million visitors until 2025 In late July almost 100 were closed to tourism, according to Costar.

The New York International Automobile Show, normally held at Javits, was canceled this month for the second year in a row because of concerns about the Covid-19 delta variant.

Bloomberg Markets

By Martin Z Braun

September 1, 2021

[S&P U.S. Local Governments Credit Brief: California School Districts]

Overview

Despite the effects of the COVID-19 pandemic, California school districts demonstrated generally stable credit quality in fiscal years 2020 and 2021, and S&P Global Ratings expects this will continue in fiscal 2022. State revenue significantly outperformed budget during fiscal 2021, and the enacted budget for fiscal 2022 provides the highest funding per pupil in the state's history. Nevertheless, if school districts that are more reliant on state funding and have experienced enrollment declines do not prepare accordingly, they could face budgetary challenges in fiscal 2023 with the expiration of provisions that have held them harmless against enrollment declines during the pandemic.

S&P Global Ratings maintains general obligation (GO) ratings on 662 school districts in California. Fifty-seven percent of California school districts are in the 'A' category, 42% are in the 'AA' category or above, and fewer than 1% are in the 'BBB' category or lower. In addition, 97% of the ratings have a stable outlook, while approximately 2% have a negative outlook. One school district has a positive outlook.

[Continue reading.]

30 Aug, 202