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News

S&P Medians And Credit Factors: Rhode Island Municipalities

Overview

S&P Global Ratings maintains long-term ratings on 22 of the 39 cities and towns in Rhode Island. Since the beginning of fiscal 2019, there were only two rating revisions–-Johnston and Providence–each received a one-notch upgrade, primarily for increased reserves and budgetary flexibility.

As the current economic cycle continues, we anticipate general rating stability as many governments look to maintain their financial positions following several years of modest taxable value growth. However, we believe there may be budgetary pressure on the horizon as GDP projections are falling and the risk of recession is rising. (See "U.S. State And Local Governments Will Need To Keep Their Hands On The Wheel," published on July 31, 2019, on RatingsDirect.)

Management teams throughout the state have adopted formal financial management policies and practices, helping to ensure continued stable financial operations. Of all Rhode Island municipalities, 65% score strong or good in our Financial Management Assessment methodology, demonstrating the strength of reporting requirements, long-term forecasting documents, and debt and reserve policies. Additionally, 100% of the state's cities and towns participate in a broad and diverse metropolitan statistical area (MSA), providing additional rating stability. While Rhode Island's manufacturing sector was particularly hard hit in the recession and we believe the state's economy is still vulnerable to economic shocks, recent growth in health care and high-technology sectors has helped diversify the economy.

Continue reading.

S&P Medians And Credit Factors: New Jersey Municipalities And Counties

Overview

New Jersey municipalities and counties (or local governments [LGs]) generally have high credit quality, and S&P Global Ratings expects credit quality for New Jersey LGs to remain stable in the near term despite the fact that they face several potential challenges. These challenges include actions at the state level that may affect local government finances (for more information, see "New Jersey's State Budget Offers Flat Aid, Uncertain Revenue For Local Governments," published Aug. 19, 2019, on RatingsDirect). The stability is supported by above-average wealth and income levels and access to strong, broad, and diverse metropolitan statistical areas (MSAs).

S&P Global Ratings maintains ratings on roughly 290 LGs in New Jersey. Overall, the LG portfolio retained stable credit quality in the last 12 months, with only 5.8% experiencing rating movement, including 11 positive rating actions and six negative rating actions. Nine of our positive rating actions reflected strengthening financial performance and reserve positions among the rated municipalities. All six negative rating actions were at least partly due to inconsistent budgetary performance. Nearly 98% of ratings carry a stable outlook, while 1% have negative and 1% have positive outlooks.

Continue reading.

Detroit Mayor Wants to Wipe Out Residential Blight With Bonds.

CHICAGO — Detroit Mayor Mike Duggan unveiled a plan on Monday to sell up to $250 million of bonds to tackle the city's remaining blighted and abandoned houses over the next five years.

If approved by the Detroit City Council, a bond measure would be placed on the March ballot, marking the first vote by residents on bonds since the city exited municipal bankruptcy in 2014.

"This is a day we have been waiting for," the mayor told a news conference in front of a boarded-up house. "No child should grow up surrounded by this kind of blight."

Proceeds from the 30-year bonds, along with annual appropriations from the city's budget, would be used to accelerate the demolition of 19,000 structures and the rehabbing of 8,000 others, according to a statement from Duggan's office.

Without the bond funds, the process would take 13 years to complete, it added.

Since 2014, Detroit has mainly relied on $265 million of federal money for the 19,000 vacant structures torn down in a program restricted to certain areas of the city.

Detroit's time in federal bankruptcy court included a default on millions of dollars of voter-approved general obligation (GO) bonds and an attempt by the city's state-appointed emergency manager to have the debt considered unsecured. Settlements with bond insurers and bondholders resulted in a 26% reduction in value.

Detroit's first post-bankruptcy sale of GO bonds solely under its junk-rated credit in December 2018 found investors eager to snap up fat yields.

David Massaron, Detroit's chief financial officer, said the new unlimited-tax GO bonds would be paid off within the city's existing property tax levy.

"I think the city has, A., proven that the investor community is comfortable with this credit, and B., has shown through its actions over the last several budgets that it is acting in a prudent and fiscally sound way," he said in a telephone interview.

Michigan's largest city was able to terminate active post-bankruptcy oversight of its finances in April 2018 after concluding three-straight fiscal years with balanced budgets.

By Reuters

Sept. 16, 2019

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

California Lawmakers Pass Bill Rolling Back Bond Disclosures.

Californians will see less information when voting on bonds and tax increases if Governor Gavin Newsom signs a bill the legislature passed Friday that rolls back disclosure requirements on the ballots.

The bill removes the obligation that schools and municipalities must disclose the fiscal impact of their measures in the questions put to voters. State senator Scott Wiener, a Democrat and backer of the bill, said trying to explain that in 75 words, the limit of a ballot question, creates confusion, may cause more measures to lose and makes it virtually impossible for tiered parcel taxes to pass. His legislation delegates the description to the guide or another separate document.

The retreat was a setback for Republican assemblyman Jay Obernolte, who had pushed for the disclosure that had passed unanimously two years ago. He said voters should have all the information when they read the ballot questions — not just in voluminous election guides they may not review.

“Californians deserve to know if a measure they’re voting on will increase their property taxes,” Obernolte said in a statement. “Opponents have argued that voters are confused with this extra level of information, but the truth is that they just want to make it as easy as possible to raise your taxes.”

Newsom’s finance department said in August that it opposes the bill because adding more information to the voter guides may result in additional production costs that the state has to cover.

Bloomberg Markets

By Romy Varghese

September 13, 2019, 5:54 PM PDT

S&P Charter School Brief: Illinois

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As of Sept. 9, 2019, S&P Global Ratings maintains three public ratings on Illinois charter schools. The Illinois legislature first approved the state’s charter school law in 1996, and approximately 65,000, or about 3%, of the state’s kindergarten through 12th-grade (K-12) students were enrolled in 141 Illinois charter schools during the 2017-2018 school year. The vast majority (about 90%) of Illinois’ charter schools are located in Chicago.

Total enrollment at Chicago Public Schools (CPS) has dropped by nearly 10% over the past five years, while charter school enrollment has grown by about 5% over the same period. Charter schools in Chicago serve approximately 13% of total K-12 Chicago students, the majority of which are located in low-income neighborhoods, serving a high free and reduced lunch population, where a quality education is in high demand.

Continue reading.

Stung Luxury Dorm Bondholders Say University Broke Promises.

- **University of Oklahoma had 'moral obligation' to renew leases**
- **Trustee calls the university's decision a 'belligerent act'**

The trustee representing bondholders who invested $250 million in a luxury dorm at the University of Oklahoma accused the college Monday of breaking a promise to lease retail and parking spaces over the 40-year term of the bonds.

The dorm at OU's flagship campus in Norman has struggled to attract students and in late July suffered another blow when the university notified the complex's non-profit owner that it wouldn't renew the annual leases. Bonds issued in 2017 to finance the 1,230-bed complex known as Cross Village, which had a 27% occupancy rate at the end of March, lost a third of their value after the university terminated the agreement.

The rental payments, projected to make up a third of the dorm's revenue, were a "moral obligation" of the university, lawyers for the trustee, UMB Bank, wrote in a letter to the university's outside counsel Monday. Failure to renew the leases could result in a downgrade of the university's bonds, driving up borrowing costs, the letter said.

Continue reading.

Bloomberg Markets

By Martin Z Braun

September 9, 2019, 9:22 AM PDT Updated on September 9, 2019, 11:40 AM PDT

University of Oklahoma Fires Back at Trust Bank in Muni Bond Dispute.

The University of Oklahoma is pushing back against complaints about its termination of a lease on commercial space in a troubled student-housing development on its campus.

That development was financed with $250 million of bonds, so the commercial property's rent is important for debt service. The university is arguing that it has no obligation to the bondholders, largely because the debt was issued by a subsidiary of private nonprofit organization Provident Resources Group that was formed in 2016 to support the university.

Trust bank UMB disagrees. In a recent letter to the university, its attorney, David Dubrow of Arent Fox, called the lease cancellation a "betrayal" and threatened legal action. Dubrow claimed in the letter that the university "assured investors that even though the leases for the commercial space and parking were renewable on an annual basis, [it] intended to rent all of the commercial spaces for the life of the bonds."

Continue reading.

Barron's

By Alexandra Scaggs

Sept. 12, 2019 3:40 pm ET

[Moody's Views Addition of Bond Insurers for Prepa RSA as 'Significant Progress']

Credit-rating agency points to uncertainties in outcome of Puerto Rico utility restructuring plan

SAN JUAN — The addition of two monoline bond insurers to the Puerto Rico Electric Power Authority's (Prepa) restructuring support agreement (RSA) represents "significant progress" toward completion of the public corporation's debt restructuring process and transformation, including averting the possibility of the utility being forced into receivership, credit rating agency Moody's Investors Service said in a report Tuesday.

The island's Financial Oversight and Management Board (FOMB) announced Monday that, together with the Fiscal Agency and Financial Advisory Authority (Aafaf by its Spanish acronym) and Prepa, it reached an agreement with bond insurers Syncora Guarantee Inc. and National Public Finance Guarantee Corp. to join the RSA that certain Prepa bondholders and Assured Guaranty Corp. reached earlier this year.

"The addition of national and Syncora to the RSA demonstrates further progress toward Prepa's debt restructuring and a subsequent emergence from bankruptcy," Moody's report states. "As part of this agreement, National and Syncora agreed to drop their previous litigation seeking a court motion to appoint a receiver for Prepa."

Moody's notes that the agreement does not change the economic terms of the RSA announced in May, which among other things, calls for existing bondholders to exchange their bonds for new securitization bonds that will be issued by a "new special purpose vehicle" that is separate from Prepa.

The debt service on the new securitization bonds will be covered with additional revenues raised with a "transition charge" on Prepa customers.

With the addition of the two bond insurers, the RSA has the approval of about 90 percent of the uninsured bonds and all of Prepa bond insurers, which exceeds the minimum 67 percent threshold needed for approval. Nevertheless, the rating agency cautions that completion of the debt restructuring process is still subject to a number of conditions, including approval from "the court overseeing the bankruptcy as well as the approval of the legislature."

Moreover, Moody's states that "there remains a high degree of uncertainty about whether this restructuring plan can or will be implemented," noting the issue of "affordability" of the agreement for Puerto Rico's "struggling economic base."

In fact, many economists and consumer advocacy groups have warned that the RSA is a sweet deal for Wall Street banks but bad for Puerto Ricans, who will end up seeing significant hikes to their utility bills. An independent analysis by the Institute for Energy Economics & Financial Analysis

(IEEFA) has projected lower rates for only a short-term basis, with increases down the road.

Puerto Rico Manufacturers Association President Carlos Rodríguez on Wednesday reportedly called on Gov. Wanda Vázquez and the FOMB to reveal the charges that would be included in Prepa customers' bills as part of the RSA, noting that the effects of such increases could be detrimental to industries on the island. It would also hamper efforts to attract business to the island, he added.

IEEFA and other organizations have questioned the legality of $5 billion of the Prepa debt in question. MBIA Insurance Corp. and its National Public Finance Guarantee Corp. had filed a lawsuit, citing flaws and conflicts of interest plaguing the $8.3 billion Prepa restructuring deal.

The Moody's report states that "there is the potential for additional litigation as other creditors, including the remaining unsecured creditors, might seek to challenge the settlement in court."

The rating company maintains a classification of "Ca" with a negative outlook on Prepa debt. The rating is given to debt that is "highly speculative and likely in, or very near, default, with some prospect of recovery in principal and interest." Meanwhile, Moody's rating for National Public Finance is "Baa2," or moderate credit risk, with a stable outlook.

Execution of the RSA would represent the third debt exchange by Puerto Rican entities after the court approved settlements for the Government Development Bank in November, and the Puerto Rico Sales Tax Financing Corp. (Cofina by its Spanish acronym) in February.

William C. Fallon, chief executive officer of National Public Finance Guarantee, said that following the Cofina transaction earlier this year, it is "a step closer to resolving all of National's Puerto Rico exposure."

"We look forward to working cooperatively with the Government of Puerto Rico, the Oversight Board and other creditors on the closing of this transaction, and to restructuring our remaining exposure to the island," Fallon said in a statement to Caribbean Business, in which he noted that the RSA "provides a blueprint for the restructuring of our insured Prepa bonds."

The Prepa RSA before the bankruptcy court covers $8.26 billion of debt. A hearing on the RSA is scheduled for Oct. 30.

Caribbean Business

By José Alvarado Vega on September 11, 2019

Shifts in Tax Policy Need to Address Puerto Rico's Status.

Treasury Secretary Steven Mnuchin rcently met with Puerto Rico Gov. Wanda Vázquez and other officials to inform them of the need to phase out the 4 percent excise tax imposed on American Foreign Controlled Corporations (CFC). This tax was conceived in 2010 by then Gov. Luis Fortuño as a short-term measure to generate additional revenues to the failing Puerto Rican government, which the IRS has allowed the CFC's to take as a tax credit.

Since then, this excise tax generates an estimated $1.8 billion yearly to the commonwealth's coffers. CFC's in Puerto Rico report approximately $40 billion yearly in profits, most of it generated outside of the island but reported in Puerto Rico for its tax advantages.

The Obama’s administration had withheld a ruling on the constitutionality of the issue under the assumption that it was a temporary measure. Each governor since has extended the law, which is now set to expire in 2027.

This taxation news would appear to be of little consequence for the greater part of the population. In fact, Mnuchin’s statements constitute a shift in Treasury policy and invites welcome attention to the current constitutional underpinnings of how the United States exercises its authority over Puerto Rico.

Underlining this shift in tax policy is the unincorporated nature of the Territory of Puerto Rico. This judicial doctrine developed by the Supreme Court in the so-called insular cases at the turn of the 20th century, was created to address tariff and tax matters on goods imported to the United States from Puerto Rico. This doctrine holds that not all constitutional protection are applicable to the territories. The unincorporated territory doctrine is the ghost in the machine that has allowed for congressional discretion — some would argue justifiably “colonial” — in its treatment of Puerto Rico.

With the approval of the Supreme Court, Congress has discriminated for 120 years in favor of powerful economic forces at the expense of the general welfare of American citizens in Puerto Rico. First were the sugar barons, now it’s the pharmaceutical companies. In the recent past, Section 936 of the Internal Revenue Code allowed for significant tax credits and incentives — aptly referred to at the time as “corporate welfare” — for American based manufacturers that were constitutionally unavailable in the rest of the country.

The triple exempt tax advantages of Puerto Rico’s bonds, which made them so attractive in the municipal bond market and contributed to our decades long public debt financing addiction, are also based in this same constitutional justification.

Puerto Rico’s current fiscal and economic crisis is due in great part to the unincorporated territory doctrine, that until recently benefited the short-term interests of investors and manufacturers, at the expense of long-term economic stability and growth. It is perfectly understandable why the defenders of the status quo lobby to obtain preferential tax treatments. These preferential tax treatments, however, have likely lead Puerto Rico to PROMESA and the Financial Oversight and Management Board (FOMB).

Within this context, Mnuchin statements that the federal government will not continue to give tax credit to CFC’s — which make payments made under local law 154, and that the government of Puerto Rico must phase it out within 6 months — are a welcomed first step in leveling the playing field between Puerto Rico and other state jurisdictions. Puerto Rico legislative leadership has already said it will be filing the required legislation.

Under the existing 2017 Internal Revenue Code, the Puerto Rico government can make up its revenues shortfalls by imposing a 10.5 percent income tax on its foreign corporation’s intangible assets, which will receive an 80 percent credit from the IRS. This income tax is estimated to produce close to $3.7 billion to the commonwealths revenues. Of course, many of these same “foreign corporations“ have individual agreements with the Puerto Rico Treasury that inure them from taxation and may not be constitutionally impaired.

This been said, a change in tax policy that fails to address how Puerto Rico is classified under the Internal Revenue Code — that is, as a foreign jurisdiction — will always be subject to modifications as Congress sees fit at any given moment. As long as Puerto Rico is kept as an unincorporated territory, which gives Congress the constitutional cover to treat it as a foreign jurisdiction, it will remain hostage to the vagaries of special interests.

Any proposed changes in the Internal Revenue Code must begin with an explicit acknowledgment by Congress that Puerto Rico is an incorporated territory that needs to be treated as any other stateside jurisdiction.

.THE HILL

BY ANDRÉS L. CÓRDOVA, OPINION CONTRIBUTOR — 09/15/19 02:00 PM EDT

Andrés L. Córdova is a law professor at Inter American University of Puerto Rico, where he teaches contracts and property courses. He is also an occasional columnist on legal and political issues at the Spanish daily El Vocero de Puerto Rico

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Bondholders With $1.1 Billion Riding on N.J. Mall Get a Peek.

- **Muni investors invited to visit American Dream this week**
- **Bond prices have soared since unrated, $1.1 billion bond sale**

Wall Street has over $1.1 billion riding on the success of New Jersey's American Dream mega mall, the massive consumer utopia outside New York City that's been in the works for nearly two decades.

So on Thursday, bondholders will get a sneak peek at the retail and entertainment hub to see what their investments helped create.

Bondholders have been invited to visit the complex in East Rutherford, New Jersey, ahead of its much-anticipated opening next month, according to a regulatory filing. Among the firms sending someone is Nuveen, one of the biggest holders of debt issued in 2017 to complete the American Dream.

Continue reading.

Bloomberg Markets

By Amanda Albright

September 11, 2019, 7:22 AM PDT Updated on September 11, 2019, 8:31 AM PDT

S&P Medians And Credit Factors: Maine Municipalities And Counties

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Overview

Maine local government (LG) ratings remain stable, in S&P Global Ratings' view, characterized by strong wealth and income indicators, low unemployment rate, and generally strong budgetary flexibility supported by positive financial performance. Overall, we do not expect any significant changes to Maine LGs' credit quality over the next year.

Supporting Maine local governments' credit quality are low pension costs, with almost no other postemployment benefits (OPEB) liabilities. Most LGs contribute to the Participating Local Districts Plan, administered by the Maine Public Employees Retirement System, which is funded at 83% as of fiscal 2018. The plan's good funded ratio has kept pension costs manageable for LGs. In addition to manageable retirement costs, LGs continue to benefit from an overall stable economy experiencing modest employment growth and increases in assessed values (AVs) over the past few years, which have contributed to generally strong budgetary performance. However, we believe the economic growth experienced by LGs will be challenged by aging workforce participation and slow population growth that is expected to remain among the lowest in the nation over the next 10 years. In addition, we believe many Maine LGs will continue to face long-term climate change related risks due to rising sea levels, which could require further investments in infrastructure projects and sustainability initiatives requiring increases in property taxes, higher debt burdens, use of reserves, or a combination of all three. Furthermore, we believe future AV growth could be hampered by federal caps on the deductibility of state and local taxes that could weaken local revenue sources and population rates especially given the large number of second-homes throughout the state.

Continue reading.

S&P: Oklahoma Court Ruling On Johnson & Johnson In Wake Of Opioid Crisis Is Not Likely To Affect Municipal Credit Quality

NEW YORK (S&P Global Ratings) Aug. 27, 2019–S&P Global Ratings does not expect Monday's court ruling in Oklahoma imposing a $572 million judgment on Johnson & Johnson for contributing to the state's opioid crisis to affect municipal credit quality.

Although the opioid crisis is real (see "The Opioid Crisis Is Real, But Not Yet A Threat To State Credit Quality," published Oct. 31, 2017, on RatingsDirect), the direct financial impact on the various states for the costs of the crisis has not been high enough to date to affect a municipal bond rating. In this particular case, the judge has ruled that judgment proceeds should be directed to opioid mitigation programs; therefore we believe it would be unlikely to affect state unreserved fund balances. The size of the judgment also needs to be placed in context with Oklahoma's $8.1 billion enacted fiscal 2020 budget, assuming the judgment is not reduced on appeal. We rate Oklahoma's general obligation debt AA/Stable.

In the wake of this ruling, other states and other opioid manufacturers might pursue private legal settlements that could impose fewer restrictions on the use of settlement proceeds, similar to settlements reached in earlier state litigation over the costs of tobacco use. That master tobacco settlement essentially imposed no restrictions on state use of settlement proceeds. Some minor favorable increase to state budgets is possible if opioid settlements increased state coffers, but as has happened following the earlier tobacco settlement, we do not expect to change an individual state rating based on expected settlement outcomes. That tobacco settlement provided ongoing state revenue from continued smoking consumption, while in the opioid situation the states' goal is to end misuse of opioids. As a result, opioid settlement proceeds are likely to be of a one-time nature, and even less likely to affect long-term credit quality.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

S&P: Despite ERCOT's Price Spikes, Texas Public Power Utilities Remain Resilient

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In mid-August, S&P Global Ratings observed price spikes in the Electric Reliability Council of Texas Inc. (ERCOT) market, which exposes utilities short on energy to increased power costs. Because the ERCOT market does not compensate generation owners with capacity prices that might provide incentives to encourage new market entrants, regulators use scarcity-pricing signals and energy conservation measures to ensure system reliability of the electric grid. Despite the recent price spikes and ERCOT's recent energy emergency alerts (EEA1) on Aug. 13 and 15, 2019, ERCOT has not had to implement systemwide rotating outages this summer. Although ERCOT's market dynamics present cost-recovery challenges to utilities for a period when reserve margins are thin and energy demand peaks, we observe public power and electric cooperatives in Texas sufficiently managing power supply needs and using power cost recovery mechanisms to recover increased power costs. We also observe that these spikes tend to be short-lived. Utilities with surplus capacity to sell might benefit during these spikes, but at other times, they face cost-recovery challenges because prices are generally low in the ERCOT market due to an abundance of renewable generation and natural gas relative to pipeline capacity. We're following the ERCOT market price spikes to better understand utilities' power supply strategies and the extent to which they are exposed to cost recovery challenges.

Continue reading.

Final Bond Insurers Join Deal Over Puerto Rico Electric Utility Debt.

SAN JUAN, Sept 9 (Reuters) – Two holdout bond insurers have agreed to a previously announced deal to restructure more than $8 billion of revenue bonds issued by Puerto Rico's bankrupt electric utility, the U.S. commonwealth's federally created financial oversight board said on Monday.

The action by National Public Finance Guarantee Corporation and Syncora Guarantee Inc to join a definitive restructuring support agreement (RSA) reached in May with other creditors moves the Puerto Rico Electric Power Authority (PREPA) closer to exiting a form of bankruptcy filed in July 2017.

"The addition of Syncora and National to the RSA provides significant certainty to the restructuring not only of PREPA's bonds, but to the transformation of PREPA to a modern, efficient power utility able to deliver clean, reliable and affordable energy to the people and businesses of Puerto Rico," a statement from the oversight board said.

It added that all of the insurers guaranteeing payments on the utility's debt and holders of about 90% of PREPA's other, uninsured bonds have now joined the agreement.

National Public Finance, a subsidiary of MBIA Inc, is PREPA's largest single creditor, owning or insuring about $1.4 billion of the utility's bonds, according to the company, which claimed earlier this year it had been excluded from negotiations as it sought a court-appointed receiver for the utility.

With the PREPA restructuring, National is another step closer to resolving all of its exposure to Puerto Rico debt, Bill Fallon, the insurer's CEO, said in a statement.

The oversight board said the economic terms of the RSA, originally reached with bond insurer Assured Guaranty Corp and bondholders, have not changed. That deal would reduce PREPA's debt by up to 32.5%. Under the agreement, investors would exchange their PREPA bonds at 67.5 cents on the dollar for new Tranche A bonds and 10 cents on the dollar for new Tranche B bonds. The latter would be contingent on full payment of Tranche A bonds and future electricity demand on the island.

PREPA would pay off the new bonds through a special charge levied on its customers.

If approved in federal court, a plan of adjustment for PREPA would mark the third major deal in Puerto Rico's efforts to restructure about $120 billion of debt and pension obligations.

PREPA's financial and operational problems were compounded by 2017's Hurricane Maria, which decimated an electric grid already struggling due to poor rate collection, heavy management turnover and lack of maintenance.

(Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago Editing by Matthew Lewis)

S&P Medians And Credit Factors: Illinois Municipalities And Counties

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Overview

S&P Global Ratings maintains ratings on 238 municipalities and 21 counties in Illinois. Currently, 58% of Illinois municipalities and counties are highly rated ('AA-' or above), and 8.5% have debt rated in the 'BBB' category or lower. During the period of Jan. 1, 2018 to July 29, 2019, only about 8% experienced changes in their general obligation (GO) rating or issuer credit rating (ICR). More entities' GO ratings/ICRs were downgraded than upgraded during the year.

We expect generally stable conditions in the Illinois municipal portfolio in the coming year, despite significant challenges, particularly with regard to many municipalities continuing to grapple with large unfunded pension liabilities. With regard to its economy, the state has continued to see a large divergence between the generally higher-growth economy in the Chicago metropolitan area and tax bases downstate, which are marked by weaker growth and less economic diversity. Overall, the state's economy, similar to the Great Lakes region as a whole, is expected to see slower economic growth than most other parts of the nation. The state passed its 2019-2020 budget on time, and while it still has a lingering structural imbalance, the budget includes a significant increase in state gas tax, which is expected to be used for capital projects in the coming years and will benefit local communities. The state continues to reduce the local government distributive fund by 5% for municipal governments, which is the same reduction that occurred last year. State legislators also authorized a referendum for a statewide graduated income tax, which will go to voters in November 2020.

Illinois' pension funding challenges remain acute, particularly with regard to single-employer public safety pension plans. Estimates indicate that the over 650 public safety pension plans statewide are 55% funded in aggregate. We anticipate that Illinois municipalities' attempts to remedy these funding deficiencies will absorb a sizeable portion of their budgets next year.

Continue reading.

Illinois' Financially Distressed Municipal Laws Need 'Teeth' Before Next Downturn, Expert Says.

Some Illinois municipalities, mired in debt with declining populations, could lose their ability to provide core services and pay debts amid a national economic downturn a situation made worse because the state's laws lack the instruments to intervene and stave off insolvency, according to a professor and municipal finance expert.

Illinois has two different laws meant to provide help for units of government that have reached budgetary crisis levels. The Local Government Financial Planning and Supervision Act, applicable to municipalities of fewer than 25,000 people, and the Financially Distressed City Law for cities with more than 25,000 people.

Both of the laws are elective, meaning the state cannot impose them on municipalities.

Michael Belsky, executive director at the Center for Municipal Finance at the Harris School at the University of Chicago, said state lawmakers need to give these laws "teeth" before the next economic downturn.

"Their tax bases have been ravaged and they have high levels of poverty. It's troubling," he said. "In other states, they have these fiscal emergency laws. We have this stewardship, but it doesn't have any teeth. I really think that's needed for these poorer communities."

East St. Louis is the only city to have used one of Illinois' financial stewardship laws, doing so shortly after the law was enacted in 1990. East St. Louis later fought back against the advisors, even suing them to stop some of the financial constraints they were attempting to put on city officials. The city was able to shed state oversight 23 years later when it was able to pay off the money it borrowed from the state.

Belsky said states like Michigan have financial intervention laws that Illinois should emulate. Michigan's laws allow the state to impose the edicts of an appointed commission upon the city found to be approaching insolvency as demonstrated in Detroit shortly before it declared bankruptcy.

Illinois has no law allowing municipalities to file Chapter 9 bankruptcy. While some municipalities have filed, they were only allowed to do so for lack of legal challenge.

The Illinois Municipal League, which represents the interests of the state's town and city governments, said the assistance provided by the acts aren't adequate compared to their current struggles.

"We're not looking for more "teeth" necessarily, but making it more applicable to what cities are needing and actually beneficial to their residents," Illinois Municipal League Executive Director Brad Cole said. He added that the league plans to work on legislation that would give better state assistance for municipalities that enlist the state's help via the Financially Distressed Cities Act and allow smaller units of government to qualify for the same assistance.

The lack of Chapter 9 accessibility leaves municipalities that don't reach out to the state for assistance to plod along in a form of walking insolvency, paying bills as revenue arrives and surviving largely on accounting gimmicks and state assistance, something referred to as a "zombie municipality" by Truth in Accounting.

By Cole Lauterbach | The Center Square

Sep 3, 2019

[Fitch Downgrades Alaska Again for State Budget Problems.]

Alaska's financial situation got a little bit tougher Thursday afternoon when Fitch Ratings downgraded a suite of credit ratings tied to state debt.

Most notably, Fitch downgraded Alaska's general obligation, or GO bond rating from AA to AA- on $724 million worth of bonds.

Another roughly $1.1 billion in state appropriation bonds was downgraded from AA- to A+ and more than $1.1 billion in Alaska Municipal Bond Bank Authority resolution bonds also went from AA- to A+.

Fitch gave the ratings a stable outlook.

As with other ratings downgrades from Fitch and other agencies in recent years, the downgrade is tied to the State of Alaska's continued inability to balance its budget, according to a statement accompanying the announcement.

"To date, (state budget) operating revenue remains anemic, and the administration's commitment to funding a full Permanent Fund dividend despite projected revenue loss has contributed to the enactment of a fiscal 2020 budget that includes deep cuts to core state services," Fitch analysts wrote. "Fitch expects this will be followed by comparable actions in fiscal 2021. Despite the expenditure reductions, appropriations from the state's Statutory Budget Reserve Fund and Constitutional Budget Reserve Fund are required to fund the dividend payment and the capital program, reflecting the state's ongoing structural deficit."

Department of Revenue officials have said a one-notch downgrade such as this one roughly equates to a 0.25 percent increase in the interest rate on money the state borrows often through bonds for capital projects. Local governments and school districts also piggy-back on the state's rating and use the moral obligation of the state to secure lower interest financing for their projects.

The Revenue Department is looking to sell up to $700 million in revenue bonds to pay off the state's remaining oil and gas tax credit obligation after the refundable tax credit program was ended in 2017 due to budget constraints. However, it's unclear exactly when, or if, that bond sale will take place as the legality of the plan has been challenged and is currently under review by the Alaska Supreme Court.

State debt manager and Alaska Municipal Bond Bank Authority Executive Director Deven Mitchell said via email that he was surprised and disappointed by the downgrade because even though getting to a final 2020 budget was "a painful process" the state ended up with a budget that is pretty much balanced.

"The report was based on negative 'beliefs' and 'potentially expected futures' rather than the reality of today," Mitchell said.

The state's credit rating has been on a downward trajectory since early 2016 when oil prices dropped to less than $30 per barrel and the state's budget deficit was more than $3 billion. Alaska had sterling AAA ratings prior to 2016.

Moody's and Investors Service currently has an Aa3 (comparable to AA-) rating for the state's GO bonds, while Standard and Poor's has an AA rating for the state.

In February, Dunleavy proposed closing the state's roughly $1.6 billion deficit without tax increases or reducing PFD payments by drastically cutting state services and pulling local tax revenue into state coffers.

According to Fitch, Gov. Michael J. Dunleavy's desire to pay a full, statutorily calculated PFD "elevates the state's fixed cost burden and reduces its ability to respond to future economic weakness as revenue growth is expected to be modest."

The agency's analysts also believe that "substantial reductions" to the state's health care and university budgets could have consequences for future economic growth in the state.

A prolonged budget debate resulted in Dunleavy vetoing $50 million from the state's Medicaid budget in addition to a $70 million cut instituted by the Legislature. Dunleavy agreed to a $25 million cut — part of $70 million over three years — to the state's support of the University of Alaska.

Dunleavy was upbeat in a statement issued late Thursday responding to Fitch's criticisms of the state's fiscal situation.

"In reading this report, it's clear this is the result of what has – or has not – occurred over the last several years," the statement said. "My administration is determined to get our fiscal house in order. Alaska has struggled with fiscal imbalance for years and we must continue moving forward on necessary steps to put in place a stable and reliable fiscal plan. I continue to be optimistic for Alaska's future: unemployment is at its lowest rate in nine years; GDP is on the rise; billions in new oil and gas investment are being made on our North Slope; the Ted Stevens Anchorage International Airport – the 2nd busiest for air cargo in the US, 5th busiest in the world – continues to expand and bring new business to Alaska. Once our fiscal house is in order, I have no doubt Alaska will once again top the rating agency charts."

Moody's downgraded the University of Alaska's bond ratings several notches in July following the governor's initial $130 million, or roughly 40 percent, cut to its state budget.

The agency also lowered the state-owned Alaska Industrial Development and Export Authority's bond rating two notches — from Aa3 to A2 — in late July despite it's generally solid financial performance because the authority is ultimately tied to the state's budget situation, analysts wrote. AIDEA routinely finances infrastructure and real estate development projects through its roughly $1.3 billion Revolving Fund. Dunleavy proposed using a portion of the Revolving Fund to pay for other state government expenses in his original budget plan but the idea was not part of the final state budget.

Alaska Journal of Commerce

By: Elwood Brehmer

Thu, 09/05/2019 – 3:41pm

Elwood Brehmer can be reached at elwood.brehmer@alaskajournal.com.

Updated:
09/06/2019 – 10:25am

Atlanta Sells Airport Bonds, But Council Has Some Questions On How It Was Done.

Atlanta City Council OK'd the sale of about $700 million in bonds this week on behalf of the airport — and airport revenue will pay off the borrowing. The market considers the airport just about as safe as U.S. Treasury bonds.

But members of Atlanta City Council had some questions about when the bond information was put together and who did it.

So first, the bonds: the yields vary, but for some of the bonds with a maturity date of 10 years, the rate is as low as 1.37% — lower than the rate on 10-year U.S. Treasury bonds. Tax treatment of municipal bonds is a little different from federal bonds, but still, the rate suggests investors think Hartsfield-Jackson Atlanta International Airport is pretty low-risk. The bond rating agencies rate the the airport as having a very strong capacity to meet financial commitments, so that's near the very top of the rating pile.

In a statement, Moody's justified its rating. On up side, there's stable demand for flights in and out of HJIA, which has a "monopoly on air travel to the region." On the down side, a total $4.1 billion in works underway at the airport are in early stages, and costs might go up.

Not important in the rating: noise about a possible state takeover of the airport. Fundamentals of airport economics would be the same, no matter who the owner is.

The bonds will help pay for Concourse T's extension, upgrades to other concourses, modernization and maintenance, a replacement fire station and other things.

But on to Atlanta City Council, which must review and approve the work of the executive branch on the bond.

Councilmember Antonio Brown said he wanted to have the documents longer before being asked to vote, pointing to a thick stack of hundreds of pages of paper.

That stack had been out for about a week and a half, said city CFO Roosevelt Council, presenting the bond documents to City Council at a Wednesday hearing.

Much of the information, like the general intent of the bond and roughly where the money would be spent is known earlier than that, said Councilmember Howard Shook. Things like the yields on the bonds down to the last decimal, or the date of sale, might not be known with more than a few days' notice. But, still Shook and others commented that there are details about spending and names that they feel arrive to Council uncomfortably late in the process.

"This is the second one that I've voted on, the day of when I'm provided the documentation, the bones of what we're voting on. I'm just not OK continuing to do that," Brown said.

Some of his colleagues piled on questions, mostly about the "transaction team:" the contractors who act as lawyers and advisors on the bond sale.

Like, who picks the team and how much they're paid.

The co-bond counsel are Hunton Andrew Kurth and The Kendall Law Firm. The co-disclosure counsel are Greenberg Traurig and Riddle & Schwartz. The Financial Advisor is Frasca & Associates. The airport consultant is LeighFisher.

Councilmember Natalyn Archibong said she wanted to see the minority- or female-owned business certification for all transaction team firms claiming that status. She was looking at some of the transaction team websites during the meeting and said she wasn't seeing the diversity pieces of all of them.

She also wanted to know how the transaction team is selected.

It's a mix, according to answers given by members of the administration who answered. For some posts, it's via a request-for-proposals process. For bond counsel, proposals are solicited and the city attorney makes the final decision.

Council President Felicia Moore wanted to know how much the team is paid.

Council said he could get her that information. He also said he and his team could communicate more with Councilmembers if they like.

Documents:

Preliminary official statement on the bonds (large file 428 pages)
Federal filings on Atlanta airport revenue bonds

Saporta Report

By Maggie Lee

August 30, 2019

What Will Be the Fallout from Denver Airport's Great Hall P3 Termination?

Dive Brief:

- Moody's Investors Service reported on the credit impact of Denver Airport Enterprise's (DEN) decision to terminate for convenience Great Hall Partners' $1.8 billion contract for renovation of the airport's Jeppesen Terminal and 34 years of concession management. The bond credit rating business believes the move will have minimal negative financial and credit impact for the city and the airport. DEN severed its relationship with Great Hall amid the possibilities of a three-year schedule delay and up to $300 million of change orders.
- Moody's said despite the exposure to higher construction costs as the airport searches for a new contractor, the facility has more than $900 million in liquidity and should easily be able to make an early termination payment to Great Hall, which Moody's estimates will be between $140 million and $180 million, and issue bonds to cover the termination payment and any extra construction costs. Moody's said the exact amount of the termination payment should be finalized closer to Great Hall's official Nov. 12 exit date.
- Moody's said the failed relationship between DEN and Great Hall highlights the risk inherent in using public-private partnerships (P3) for some projects, especially those with the relatively higher risk of "designing for and building in a dynamic operating environment," such as the airport, which has remained open during the project. DEN understood the risks, Moody's said, indicated by its inclusion of a $120 million contingency in Great Hall's contract. Moody's added that P3 projects for construction of new assets are likely to see more success.

Continue reading.

Construction Dive

by Kim Slowey

Aug. 28, 2019

Chicago Mayor Searches for Answers to Gaping Budget Hole.

Lori Lightfoot says residents should prepare themselves for tough choices as city looks to close a $838 million shortfall

CHICAGO—Mayor Lori Lightfoot warned that residents needed to be prepared for hard choices to tackle an $838 million budget hole, the largest in the city's recent history.

On Thursday evening, Ms. Lightfoot, who in May became the first black woman and first gay mayor of Chicago, said she was open to every possibility for closing the gap. But she said she wanted to avoid hurting low-income residents or risk driving away businesses with overly burdensome taxes.

"I cannot in good faith promise you that I will take any option off the table to tackle this crisis, whether it's through budget reductions or by raising revenue," Ms. Lightfoot said.

Despite a thriving downtown and prosperous North Side, the city's population has been shrinking for years, eroding its tax base.

Chicago has the largest net pension liability of any major U.S. city at $41.7 billion, according to a 2017 analysis by Moody's Investors Service. That estimate surpasses the city's projection of around $30 billion. Moody's rates Chicago's bonds at "junk," or below investment grade.

Ms. Lightfoot said residents should be prepared for painful choices if new sources of revenue, like a new casino proposed for the city, didn't come to fruition.

Ms. Lightfoot said the original budget gap was $1 billion, but as a result of new forecasts and some changes implemented so far—such as crackdowns on worker absenteeism and vendors who fail to deliver—that shortfall has been narrowed to $838 million. A third of the deficit is due to higher pension payments, another third from increased labor costs, a nearly $100 million jump in debt servicing, and $90 million from lawsuit settlements, she said.

"To put this into perspective, folks, for every dollar you pay to the city, 80 cents goes to pay for the cost of personnel and benefits, along with pensions," she said.

Laurence Msall, president of the Civic Federation, a business-backed watchdog, said "it is a frightening and dangerous place where the city of Chicago is right now."

Ms. Lightfoot said she couldn't rule out raising property taxes, a controversial measure, because her predecessor Rahm Emanuel already increased property and other taxes to fund pensions. Ms. Lightfoot brought up other possibilities for new sources of revenue, like a graduated real-estate transfer tax on expensive homes or some sort of congestion tax.

The mayor said she planned to address the substantial drag on the city's finances created by its bond and pension liabilities but gave few specifics.

She said the city could save $100 million by refinancing higher-cost debt and another $22 million by curbing short-term borrowing.

She said pension costs are expected to grow by $200 million in 2021 and $400 million the following year, adding that she hoped revenue produced by the legalization of cannabis, set to take effect in January, and the proposed casino would help fill the resulting budget gap. She said cooperation with lawmakers in Springfield would also be key.

Michael Belsky, executive director of the center for municipal finance at the University of Chicago, said the mayor was "very frank and honest about the scope of the problem and that new taxes will be on the table."

The Wall Street Journal

By Shayndi Raice and Heather Gillers

Updated Aug. 29, 2019 8:53 pm ET

Editorial: Pension, Bond Lawsuit Should Get Its Day In Court

A Sangamon County Circuit Court judge is expected to decide soon whether to allow an unconventional lawsuit that challenges Illinois' borrowing habits to proceed.

We'll cut to the chase: We hope Judge Jack Davis Jr. allows the case to move forward. Why? About

244 billion reasons. That's how many dollars the financial watchdog group Truth in Accounting estimates Illinois taxpayers eventually will owe due to unfunded pension liabilities, health care obligations and unpaid state bills. The debts have piled up over decades but accelerated since the early 2000s, dragging the state's credit rating to near junk status.

So yes, taxpayers deserve a shot at having someone contest Illinois' tradition of overborrowing. The case is considered a Hail Mary attempt, even though it raises legitimate concerns about the manner in which Illinois politicians have borrowed money in the bond market to balance budgets and pay for operations.

Continue reading.

By THE EDITORIAL BOARD

CHICAGO TRIBUNE

AUG 26, 2019 | 5:50 PM

Illinois Bonds Gain as Judge Denies Petition to Void Debt.

- **Tillman, who sought to file lawsuit, says he plans to appeal**
- **'Risk is taken off' for bondholders, Belle Haven says**

Illinois bonds rallied after a judge denied an effort by the head of a conservative think tank to invalidate more than $14 billion of debt issued by the worst-rated state.

Sangamon County Associate Judge Jack Davis late on Thursday rejected the petition filed by John Tillman, head of the Illinois Policy Institute, and backed by Warlander Asset Management, a New York-based hedge fund, that sought to "restrain and enjoin the disbursement of public funds," according to court documents. Tillman had claimed that Illinois's record pension bond sale in 2003 and debt issued in 2017 were deficit financing that violated the state constitution, which says bonds must be issued for "specific purposes."

"The court finds that to allow the filing of the Complaint would result in an unjustified interference with the application of public funds," Davis wrote in an order on Thursday. "The court finds reasonable grounds do not exist for filing the proposed Complaint."

Tillman said in an emailed statement that he plans to appeal and "strongly" disagrees with the court's decision, adding that it was "premature for the Court to decide the case on the merits at the petition stage."

Some of the bonds targeted by the suit, which had been trading at slightly lower prices than other Illinois securities, gained after the decision. Bonds sold for the pension system that come due in 2033, one of the most actively traded, traded for about 109 cents on the dollar early Friday, up from an average of about 106 cents before the ruling. That cut the yield to about 4.25% from 4.5% on Wednesday.

"There was an inefficiency in the market based on the potential for the bonds being invalidated," said Brian Steeves, portfolio manager for Belle Haven Investments in Rye Brook, New York. "That risk is taken off the table."

During a hearing on Aug. 15, Davis had said Warlander backing the case was a distraction, and the issue warranted further review. The judge had said at the time he would issue an order in 14 days.

"Tillman's proposed Complaint is chock-full of conclusory and argumentative statements describing the financial condition of the state that are irrelevant and which the court must disregard," Davis wrote on Thursday. "Indeed, it resembles far more of a political stump speech than it does a legal pleading."

Illinois officials had rejected the suit as politically-motivated and said the borrowings were valid.

Bondholders Nuveen Asset Management LLC and AllianceBernstein LP had alleged that Warlander, which also owns Illinois debt, stood to profit if the case succeeded because the hedge fund purchased credit-default swaps that would pay off if the court forces the state to stop making payments on the 2003 and 2017 debt. An attorney representing Warlander and Tillman acknowledged at an Aug. 15 hearing that the hedge fund bought credit default swaps on the challenged bonds.

Hedge Fund Seeking to Void Illinois Debt Made Wager on Default

The case had been closely watched as litigation is a new risk for investors in the $3.8 trillion U.S. municipal-bond market, long considered a haven given that no state has defaulted since the Great Depression. Borrowers are under increasing scrutiny after high-profile municipal bankruptcies such as the one in Puerto Rico, where a federal oversight board and group of hedge funds want more than $6 billion of bonds declared null and void.

"There was no question that they were" issued legally in Illinois, said Chris Mier, chief strategist at Loop Capital. He said a trial over the bonds would have been "a television soap opera for finance people."

Mier said the decision is reassuring because the municipal-bond market would not have to deal with the ramifications of another major lawsuit. Puerto Rico's record-setting bankruptcy has cast doubt over the legal protections investors have in the safe-haven market.

It's "one less sideshow that market does not need," Mier said.

Bloomberg Markets

By Shruti Singh

August 29, 2019, 2:56 PM PDT Updated on August 30, 2019, 5:51 AM PDT

— With assistance by Danielle Moran, and Amanda Albright

Illinois Debt Boosted After $14 Billion Bond Challenge Dismissed.

An Illinois judge rejected attempts to question the validity of bonds sold in 2003 and 2017

Illinois municipal bonds rallied Friday after a judge dismissed a petition that sought to restrain state borrowing and prohibit Illinois officials from making any more payments on $14 billion in debt.

After Sangamon County Circuit Court Judge Jack D. Davis II threw out the complaint challenging the validity of $14 billion in Illinois general obligation bonds, their prices rose modestly, according to Municipal Securities Rulemaking Board data. A $7.65 billion bond sold in 2003 to shore up the state's pension funds fetched as much as 108.9 cents on the dollar early Friday, up from 107 cents on Thursday before the ruling.

Those were among the securities that John Tillman, chief executive of the conservative Illinois Policy Institute think tank, had challenged in a lawsuit claiming the state had piled more debt on the state's taxpayers than its constitution allowed.

Mr. Tillman, joined by New York hedge-fund manager Warlander Asset Management LP, said Illinois broke a state rule prohibiting deficit financing by selling debt in 2003 to close a pension gap and in 2017 to pay down government vendors.

Mr. Tillman, a prominent foe of public sector unions in Illinois, had asked the county court for permission to move forward his arguments that the two issuances should be invalidated and further payments to bondholders stopped.

But Judge Davis found no reasonable grounds for the complaint, saying on Thursday it would "result in an unjustified interference with the application of public funds" and draw the courts into political questions that should be left to lawmakers

"Indeed, it resembles far more of a political stump speech than it does a legal pleading," the judge said.

In a statement, Mr. Tillman said he would appeal and disagreed with the conclusion that the validity of bond deals was outside the realm of the judiciary to decide.

His lawsuit revolved around a provision in the Illinois constitution barring the state from taking out long-term debt except for "specific purposes" or to refinance other obligations. If successful, the complaint would have declared the 2003 and 2017 debt sales unconstitutional and unenforceable.

Nuveen Asset Management and AllianceBernstein LP, which own those bonds, came to the state's defense and questioned whether Warlander had placed a short bet in the form of credit default swaps that would pay out if the lawsuit were successful. Under questioning from Judge Davis this month, an attorney for Mr. Tillman said Warlander did indeed own those instruments.

While state and local governments nationwide are grappling with how to cover bond payments, pension benefits and infrastructure needs, few are as strained as Illinois, where state courts have largely barred lawmakers from scaling back retirement obligations.

Illinois has found willing lenders despite its precarious finances, demonstrating how investors' appetite for returns can help governments borrow even with credit ratings teetering above junk territory. Yet analysts have questioned how long the municipal market will continue lending to Illinois at reasonable rates, especially if the economy dips into recession and the state's tax base shrinks.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the U.S. island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

The complaint mirrors efforts by the board supervising Puerto Rico's finances to have certain bonds declared invalid. In January, the board filed court papers arguing that $6 billion in general obligation bonds should be considered worthless because they layered more debt on Puerto Rico than its constitution allowed.

While no court has ruled on those arguments, a bankruptcy-exit framework proposed by the board last month takes them into account and offers a comparatively lower recovery to investors whose claims have been challenged.

The Wall Street Journal

By Andrew Scurria

Aug. 30, 2019 12:24 pm ET

[Judge Slams Petition Challenging Illinois Bonds as Political.]

CHICAGO — An Illinois judge on Thursday ruled that a petition by taxpayers aiming to challenge the constitutionality of $16 billion of the state's general obligation bonds was political in nature and cannot proceed in court.

Sangamon County Circuit Court Associate Judge Jack Davis II denied the petition filed in July by the head of an Illinois-based conservative think tank, along with an investment firm.

"Indeed, it resembles far more of a political stump speech than it does a legal pleading," the ruling stated. It added that allowing a complaint to be filed "would result in an unjustified interference with the application of public funds."

John Tillman, CEO of the Illinois Policy Institute, and New York-based investment firm Warlander Asset Management, which owns $25 million of unchallenged Illinois bonds, had sought the court's permission to file a taxpayer lawsuit against state officials to stop billions of dollars in future payments on the approximately $14.35 billion of bonds that remain outstanding.

Tillman said the ruling will be appealed.

"It was premature for the court to decide the case on the merits at the petition stage," he said in a statement, adding he was confident he will prevail.

Meanwhile, Democratic Governor J.B. Pritzker's office said it was pleased "the judge repudiated this sham lawsuit brought on by the same far-right actors whose pathological desire to bankrupt the state brought us four years of devastation under (former Republican Governor) Bruce Rauner."

The petition claimed bonds Illinois sold in 2003 and 2017 violated the state constitution because the proceeds were not used to fund specific purposes like capital improvements.

Illinois used proceeds from 2003's $10 billion bond sale for its underfunded employees retirement system. Money from $6 billion of bonds sold in 2017 was used to pay overdue bills that had reached a record-high $16.67 billion as a result of a two-year state budget impasse between Rauner and Democrats who control the legislature.

News of the litigation had pushed yields on the state's bonds higher in the U.S. municipal market, where Illinois already pays the biggest yield penalty among states due to its financial woes and low credit ratings.

Ted Hampton, an analyst at Moody's Investors Service, which rates Illinois one notch above junk, called the ruling a positive development, while noting that an appeal "could still complicate the state’s near-term debt issuance plans.”

Those plans include $1.2 billion of general obligation bonds to dent the state’s big unpaid bill backlog.

By Reuters

Aug. 29, 2019

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis and Lisa Shumaker)

[U.S. Judge Refuses to Dismiss Lawsuit Over Puerto Rico Pension Law.]()

SAN JUAN — A lawsuit filed by Puerto Rico’s financial oversight board over a new pension and healthcare funding law will move forward after a federal judge on Thursday denied the U.S. commonwealth’s motion to dismiss the case.

The litigation, which marked the latest skirmish in an ongoing battle between the board and the government over spending priorities, targets a law that transfers hundreds of millions of dollars in municipal pension and healthcare costs to the bankrupt Puerto Rico government.

U.S. District Court Judge Laura Taylor Swain rejected arguments by the island’s government that the lawsuit cites faulty claims based on the 2016 federal PROMESA Act, which created the board and a bankruptcy-like process to restructure about $120 billion of Puerto Rico’s debt and pension obligations.

Swain, who is hearing the island’s bankruptcy cases, ordered the lawsuit to proceed.

A fiscal 2020 budget passed by Puerto Rico lawmakers included funding for local pensions and health insurance costs to aid cash-strapped municipalities despite warnings from the board that so-called Law 29, which enabled the move, is inconsistent with its fiscal plan.

The board’s lawsuit seeks to void the law, contending it would impair the PROMESA Act by diverting hundreds of millions of dollars Puerto Rico’s government could otherwise use to spur economic growth.

Law 29, which was enacted in May by then-Governor Ricardo Rossello, will add $311 million in additional government spending in fiscal 2020 and $1.7 billion through fiscal 2024, according to the lawsuit.

The oversight board sued Rossello and Puerto Rico’s fiscal agency in July. Rossello resigned earlier this month in the wake of protests over government corruption and controversial leaked chat messages involving him and close allies. He was eventually replaced by Wanda Vazquez, Puerto Rico’s justice secretary.

Following a meeting last week between Vazquez and a group of island mayors, the new governor vowed she will continue to defend the law’s validity, according to Carlos Molina, president of the Mayors Federation.

By Reuters

Aug. 22, 2019

(Reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan; Editing by Matthew Lewis)

[Editorial: DIA Got Out Of A Bad Public-Private Partnership, We Should Stop Getting Into Them.]

Denver International Airport is a mess at the moment.

Airport officials terminated a billion-dollar, 30-year, public-private partnership contract with the international giant Ferrovial Airports. It was a drastic move in the middle of a massive renovation of the Jeppesen Terminal.

But it was the right move.

Ferrovial Airports and its affiliated construction team Ferrovial Agroman had recently estimated that the project was going to be delayed by years and cost hundreds of millions of dollars more. Rather than ride out a mediation process to determine who was at fault for the delays and cost overruns, airport officials decided to execute an escape clause in the public-private partnership that gets them out of the deal now and able to move forward on their own.

That option comes with its own costs, which will have to be calculated out in a separate mediation process based in part on a guaranteed return on investment of 4.8 percent on some of the equity Ferruvial had already brought to the project.

But we agree with Kim Day, CEO of the airport, that they needed to regain control of the budget, contracting and scheduling. Day says that without Ferrovial, her team will be able to scale down the scope of the project and deliver it for $770 million, which is far less than what Ferrovial was projecting.

We believe that Kim Day and her team learned hard lessons about a job of this complexity and dealing with a difficult partner. They own up to not acting more aggressively when key personnel were replaced with inadequate substitutes. They admit that for various reasons — including not being told prices for options — they were slow to make design decisions. And they admit that they probably should have cut ties sooner with Ferruvial and the partnership created to manage the project, Great Hall Partners.

We believe they are committed to finishing the scaled-down project within budget.

But because Day insists the problem was the partner they chose and not the fundamentals of the P3 arrangement, we do not think they learned the biggest lesson of all: Public-private partnerships are risky, maybe even dangerous and should be used only when there are truly no other options. We're not even convinced they should be used then.

DIA did not need Great Hall Partners to finance the renovation. Instead, they were seeking expertise in undertaking such a massive project without disrupting airport operations any more than necessary.

This reasoning puzzled us from the start: Why give away so much control to a partner rather than just hiring the expertise you need? Day says they now have that expertise in their COO, and of course, they will retain the plans drawn up by Ferrovial for this project.

But the fundamental lesson learned here is that public-private partnerships give a private for-profit company control over public projects and public dollars. Oversight can be difficult — perhaps made more difficult in this case by a partner headquartered in Spain — and after the contract is signed, private companies can balk at requests for transparency. While cities and states say that these project agreements are great at transferring risk, one need only look at other projects in the area to see that when push comes to shove, these entities would rather take the issue to court than let unforeseen costs eat into their profits.

Thankfully Day and her team had drafted up a contract that included a reasonable escape hatch when disputes arose.

Moving forward, we urge public bodies to look for alternatives to public-private partnerships and if none exist, consider postponing the project until public financing is available.

By THE DENVER POST EDITORIAL BOARD

August 23, 2019 at 3:05 pm

Pennsylvania Supreme Court Strikes Down City Ordinance Attempting to Regulate Utilities' Use of Municipal Rights-of-Way.

The Pennsylvania (PA) Supreme Court issued its unanimous decision on August 20 in *PPL Electric Utilities Corp. v. City of Lancaster*, invalidating a municipality's efforts to impose annual fees on utilities to occupy public rights-of-way and adopt inspection, supervision, and enforcement measures underpinning those fees. The PA Supreme Court affirmed that the Public Utility Code (Code) and the authority of the Pennsylvania Public Utility Commission (PUC) to apply and enforce the Code preempt the field on all matters that relate to the regulation of public utilities in the commonwealth. In doing so, the court upheld the longstanding principle that public utilities should be regulated by one statewide agency, namely the PUC.

The litigation culminating in the PA Supreme Court's decision arose from the 2013 enactment of a local ordinance that implemented a comprehensive program for management of municipal rights-o--way. The key provision of the ordinance at issue authorized the City of Lancaster (City) to impose perpetual, annual occupancy fees on utilities for their presence in municipal rights-of-way. The ordinance also included provisions purporting to grant the City authority to inspect public utility facilities located in the right-of-way, order the relocation of such facilities, and enforce the Code and the ordinance itself.

In 2014, PPL Electric Utilities Corp. (PPL) challenged the ordinance in the Commonwealth Court of Pennsylvania and asserted, among other things, that the Code preempted the ordinance. In an opinion issued on October 15, 2015, the Commonwealth Court agreed, holding, consistent with prior law, that the inspection, supervision, and enforcement provisions of the ordinance unlawfully intrude on the PUC's exclusive jurisdiction over public utility rates, service, and facilities. However, the Commonwealth Court upheld the City's authority to impose the occupancy fee, which it determined was an authorized exercise of the City's home-rule authority to seek reasonable compensation for maintenance expenses associated with rights-of-way used by utilities. The City and PPL both appealed to the PA Supreme Court.

The PA Supreme Court first addressed the City's appeal and held that the Code's comprehensive statutory framework for utility regulation reflects the General Assembly's clear intent "wholly to occupy the field of utility regulation at the state level." The PA Supreme Court explained that in a long line of cases dating back over a century, Pennsylvania has recognized the importance of having a single agency in charge of regulating public utilities so that the public welfare is not adversely affected by public utilities having to navigate different regulations for each locality. In light of that precedent, the PA Supreme Court concluded that Code compliance and enforcement plainly are entrusted to the PUC and the City lacked authority to "step into that domain, even gingerly." Therefore, notwithstanding the City's argument that the ordinance limits local authority by deferring to applicable Code provisions and PUC standards, the PA Supreme Court found that the Commonwealth Court correctly enjoined the City's inspection, supervision and enforcement measures.

On the other hand, the PA Supreme Court reversed the Commonwealth Court's opinion to the extent it allowed the City to impose occupancy fees on utilities. In the appeal, PPL, the PUC, and *amici* represented by Morgan Lewis, emphasized that the ordinance's occupancy fee would generate a local benefit but impose costs that are spread across utilities' multi-municipality customer base. The PA Supreme Court focused on this argument in its opinion and held the Code's preemptive effect applies to the occupancy fee because that fee is "materially congruent" to the state-level PUC assessment that is already reflected in utility rates. The court further reasoned that setting utility rates that reflect local occupancy fees is contrary to the fundamental intent of the Code to provide a "uniform regulatory framework that ensures a level playing field for all utilities and utility subscribers."

by Kenneth M. Kulak, Anthony C. DeCusatis and Brooke E. McGlinn

August 23 2019

Morgan Lewis & Bockius LLP

Fitch Ratings: Great Hall Termination Will Not Hit DIA or Project's Rating

Fitch Ratings-New York-14 August 2019: The announced termination of the Great Hall public-private partnership terminal redevelopment project at Denver International Airport (DIA) will not adversely affect either the airport's ratings or those tied to the project itself, according to Fitch Ratings.

Fitch's view is based on the decision by the City and County of Denver, CO (Denver), as airport owner and grantor to the project, to apply the termination for convenience option which would result in payments to the developer, Great Hall Partners (GHP), sufficient to repay the remaining bonds outstanding. The airport has a strong financial position and demonstrated market access to defray the termination obligation.

Fitch currently rates DIA 'AA-'/'A+' with a Stable Outlook and carries a 'BBB' rating and Stable Outlook on approximately $189 million of project bonds issued by Public Finance Authority.

Recent monthly construction update reports submitted by GHP were indicating delays that would extend the construction period by at least three years beyond the original completion timetable, which had assumed the redevelopment project becoming fully operational by late 2021. Delays were based on structural conditions tied to compressive strengths of concrete coupled with change orders during the initial construction phase. GHP had determined that concrete samples taken and evaluated in late 2018 indicated lower strength than contractual baseline assumptions. Relief event notices were submitted by both the developer and contractor for unknown structural conditions based on these results. The dispute was clearly reaching an elevated and less collaborative turn as indicated by Denver’s rejection of GHP’s relief claim, which had requested additional compensation as well as an extension of time for completion.

The Great Hall project was intended to utilize a design-build-operate-finance-maintain project approach for the refurbishment of the airport’s Jeppesen Terminal. DIA had originally opened in 1995 as a larger replacement facility for the previously operated Stapleton Airport. Under the original Great Hall design-build schedule set in late 2017, the project anticipated an approximate 48-month design and construction period followed by a 30-year operating period. Based on the most recent monthly construction project report through June, the completion of the four-phase project was set for late 2024.

At inception, this terminal redevelopment project was viewed to have a lower than typical completion risk profile when compared to other airport public private partnership ventures. The construction work is being led by an experienced joint venture team including Ferrovial with further support from a comprehensive construction security package, which includes payment and performance bonds and liquidated damages. The work solely involved interior areas of the existing main terminal building used for passenger check-in, security screening and baggage processing as well as providing for concession locations. From a financial perspective, the original construction budget was estimated to be $650 million with more than 70% sourced by the airport progress payments, leaving only a modest amount needed for financing and equity contributions.

The dispute and resulting termination decision can be an illustration where even in cases of a strong alignment of interests from all parties to ensure a successful outcome, construction delays can lead to a discord in the partnership. The projected length of the delay, the added costs for remediation, as well as Denver’s rejection of the claim for relief, collectively would have created a more speculative level of risk to the repayment on the project bonds issued by the developer. Thus, the termination for convenience option provides the most certain outcome for debt repayment.

On the other hand, Denver faces cost and time exposures in order to replace the contractor and proceed with the redevelopment. While the benefit of an expanded terminal and new concessions will be considerably delayed from the original timetable, Denver will no longer have to share a portion of the concession revenues generated at the main terminal and will also retain longer term flexibility to manage concessions across the entire terminal and multiple concourses serving commercial passengers

Looking ahead, Fitch will monitor the steps taken to effectuate the termination of the partnership and the sources of funds to cover related costs. Denver is one of the nation’s largest airport that has a strong revenue risk profile based on robust airline activities and sound airline agreement terms to recover all costs. The financial profile is favourable as evidenced by moderate leverage, stable coverage levels, and solid cash reserves.

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[Hedge Fund Seeking to Void Illinois Debt Made Wager on Default.]

• Warlander bought derivatives that would pay if state defaults
• Lawyer confirms allegations made by Nuveen, AllianceBernstein

Warlander Asset Management, the hedge fund seeking to invalidate $14.3 billion of Illinois bonds, bought derivatives that will pay off if the state defaults on the debt.

An attorney for Warlander's co-plaintiff, John Tillman, the chief executive officer of the Illinois Policy Institute, disclosed the firm's derivative wager at a hearing in Springfield on Thursday. That confirms the assertion made by two big bond investors, Nuveen Asset Management LLC and AllianceBernstein, in a brief arguing that the case should be tossed out — saying it raises questions about Warlander's motives.

"Permitting activist investors to litigate against the validity of widely held municipal bonds based on their credit default swap bets could introduce a significant destabilizing force into the municipal markets and harm investors and government entities alike," Nuveen and AllianceBernstin said in their filing on Friday.

The credit default swap market for municipal bonds is thinly traded, given that no state has reneged on its debts since the Great Depression. But the price of those for Illinois have risen since the lawsuit was filed at the start of July: The cost to protect against losses on the state's bonds for five years has jumped by 41 basis points to 186.5 basis points, or $186,500 annually for every $10 million insured, according to IHS Markit.

An Illinois judge Thursday said he needed more time to review Tillman's petition. The complaint claims the state's record pension bond sale in 2003 and debt issued in 2017 were deficit financing prohibited by the state's constitution. Although Warlander is a plaintiff in the case, it didn't petition the court to file a taxpayer complaint.

Illinois taxpayers would save $20 billion in debt service payments if the court finds elected officials violated the constitution, the plaintiffs have said. Warlander has said there's nothing improper about an investment firm having a financial interest in litigation. Warlander previously disclosed they had a financial interest in the case, but didn't provide details about the nature of the interest.

John Thies, Tillman's attorney, didn't disclose the amount of CDS owned by Warlander, and a spokesman for the firm declined to as well.

A credit-default swap contract is similar to insurance on a bond, but the purchaser doesn't need to own any of the underlying debt to buy one. The swap purchaser can buy the bonds after they default and then tender them to the swap seller to get full payment on the contract.

Warlander also owns $25 million of Illinois general-obligation bonds that would be more secure if the firm succeeded in having the other securities invalidated.

Bloomberg Technology

By Martin Z Braun and Shruti Singh

August 15, 2019, 12:44 PM PDT

[Investor Behind Illinois Bond Suit Made Short Bet Tied to Case, Funds Claim.]

- **Nuveen, AllianceBernstein say Warlander bought default swaps**
- **Warlander filed lawsuit seeking to void Illinois debt in court**

A hedge fund that filed a lawsuit seeking to have $14.3 billion of Illinois bonds invalidated in court stands to reap enormous profit if the case succeeds and the state defaults on the debt, Nuveen Asset Management LLC and AllianceBernstein LP alleged in a court filing.

New York City-based Warlander Asset Management purchased credit-default swaps that will pay off if the lawsuit causes a default, according to Nuveen and AllianceBernstein, which together own about $2 billion of Illinois bonds, including those challenged in the case.

"Permitting activist investors to litigate against the validity of widely held municipal bonds based on their credit-default swap bets could introduce a significant destabilizing force into the municipal markets and harm investors and government entities alike," Nuveen and AllianceBernstein said in a brief filed Friday in Illinois Circuit Court.

Warlander said in a filing Tuesday that there's nothing improper about an investment firm having a financial interest in litigation and called the funds' friend of-the-court brief an "unjustified attack." The filing didn't provide details about the nature of that financial interest.

Warlander and the chief executive officer of the Illinois Policy Institute, a conservative think tank, sued Illinois Governor J.B. Pritzker on July 1, saying the state's 2003 pension bonds and 2017 debt sold to pay bills were deficit financings prohibited by the state constitution. Both issues were done before Pritzker took office this year.

Warlander, which owns $25 million of Illinois general-obligation bonds that would be more secure if the firm succeeded in having the other securities invalidated, disclosed in a footnote in its complaint that it also had a "separate financial interest" in the litigation. That separate financial interest involves credit default swaps "well in excess of its nominal $25 million bond position," Nuveen and AllianceBernstein said, without providing specific evidence.

Warlander's financial interest has no bearing on a Thursday hearing in circuit court of Sangamon County on whether John Tillman, the CEO of the Illinois Policy Institute, has standing to file a taxpayer complaint, the hedge fund said in its court filing. Although Warlander is a plaintiff in the case it didn't petition the court to file a taxpayer complaint.

"Though Warlander's motives are not an issue, they are of no malice to the state. A complaint can hardly be 'malicious' when its goal is both to require the state's elected officials to act within the bounds of its constitution and to relieve the state of $20 billion in debt service obligations — which would clearly benefit the state."

Nuveen and Alliance Bernstein want the court to require Warlander to disclose the nature, terms and extent of its separate financial interest "so that the court can determine whether the petition is filed not to vindicate the interests of Illinois taxpayers but to allow an out-of-state hedge fund to create a default and profit from the swaps," Nuveen and AllianceBernstein said.

If Warlander's true financial interest lies in creating a default so it can profit, then the lawsuit was filed with a "malicious or ulterior purpose" and the court should reject it, Nuveen and AllianceBernstein said.

A credit-default swap contract is similar to insurance on a bond, but the purchaser doesn't need to own any of the underlying debt to buy one. The swap purchaser can buy the bonds after they default and then tender them to the swap seller to get full payment on the contract.

Credit-default swaps on Illinois general-obligation bonds exceeded $300 million at the end of June, according to International Swaps and Derivatives Association data. The cost to protect against losses on Illinois bonds for five years has jumped 41 basis points since July 1 to 186.5 basis points, or $186,500 annually for every $10 million insured, according to IHS Markit.

The lawsuit has already impaired Illinois bond prices and made it difficult for the state to issue new securities, the funds said.

The spread on Illinois' 2003 and 2017 general obligation bonds rose to 182 basis points from 134 basis points, and the trading price dropped relative to the broad market, after the Warlander suit was filed, according to Nuveen and AllianceBernstein. Benchmark Illinois bonds are trading with a 3.03% yield, the highest among 20 states tracked by Bloomberg, and about 172 basis points more than top-rated debt, according to Bloomberg data.

Holders of the bonds had a paper loss of $574 million after the lawsuit was filed, the funds said. Illinois postponed until the fall a general-obligation bond sale to pay more bills.

Warlander's suit is based on an incorrect reading of the Illinois constitution, Nuveen and AllianceBernstein said. Article nine, section nine of the constitution says the state may issue long-term debt only to finance "specific purposes" if approved by three-fifths of the legislature or by popular referendum.

A "specific purpose" refers to a description, not a limitation on the power to incur debt, the funds said. The three-fifths vote requirements acts as a limitation on the ability to borrow.

Using bond money to cover general expenses, speculate in the market, or pay past-due bills isn't a "specific purpose" for incurring state debt, but rather another name for deficit financing, Warlander said in its original complaint.

The drafters of Illinois' 1970 Constitution didn't intend to allow the state to incur unlimited general obligation debt for any purpose, the hedge fund said.

Bloomberg Markets

By Martin Z Braun

August 12, 2019, 3:38 PM PDT Updated on August 13, 2019, 12:12 PM PDT

New Jersey Law Expands Eligibility Criteria for Designating Redevelopment Areas: Day Pitney

On August 9, New Jersey Gov. Phil Murphy signed into law AB 1700/SB 1583 (the Law), which amends the Local Redevelopment and Housing Law (LRHL) to address some of the shortcomings of the existing criteria for designating areas as being in need of redevelopment. The Law expands the eligibility criteria for designating areas in need of redevelopment by including certain shopping malls, office parks and other commercial properties.

New Jersey has long been a suburban state in which many shopping malls and office parks have been constructed over the past several decades. At one time, office parks and shopping malls were thriving and contributed to the state's prosperity. However, due to changing demographics, technology and shopping habits, many office parks and shopping malls have become outdated, obsolete or vacant.

The LRHL provides municipalities with an opportunity to designate properties that satisfy certain criteria as areas in need of redevelopment. Until this recent amendment, the LRHL did not specifically include certain commercial properties, such as shopping malls and office parks. The amendment to the LRHL expands criterion (b) of N.J.S.A. 40A:12A-5 to include the discontinuance or abandonment of buildings used for retail, shopping malls and office parks, as well as buildings with significant vacancies for at least two consecutive years. By expanding the types of properties that can be designated as areas in need of redevelopment, the amendment offers the opportunity for municipalities and developers to redevelop such properties by using the incentives offered through redevelopment under the LRHL, such as payments in lieu of taxes (PILOTs) or redevelopment area bonds.

The Law expands the potential reach of the LRHL, providing developers with an opportunity to address the rising vacancies in office parks and shopping malls and allowing municipalities to address lost ratables based on the high vacancy rates. This alert serves only as a summary of the Law. For more information or questions, please contact the authors or any member of the Day Pitney land use team.

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EPA Clears the Way for Much Needed Funds for Water and Sewer Repairs in Puerto Rico.

San Juan, Puerto Rico – The U.S. Environmental Protection Agency (EPA) and Puerto Rico Aqueduct and Sewer Authority (PRASA) announced the restructuring of more than 200 delinquent loans—totaling approximately $571 million in principal—owed to Puerto Rico's clean water and drinking water State Revolving Fund (SRF) programs. This restructuring clears the way for the commonwealth's idled SRF programs to once again provide critically needed funding to improve Puerto Rico's water and sewer systems, create local jobs, and ensure that the people of Puerto Rico have safe and clean water.

PRASA provides drinking water to 97% of Puerto Rico's 3.2 million people and sewer service to more than half of the Island's communities. The lack of access to funding from the SRF programs has been a major obstacle to making water infrastructure repairs and improvements across the commonwealth.

"EPA is pleased that Puerto Rico's SRFs are back on track and able to provide critically important funding for clean and safe water," said EPA Administrator Andrew Wheeler. "With this loan restructuring, EPA is protecting taxpayer dollars while ensuring that funding is available for water infrastructure projects that will help build a stronger, safer, and healthier Puerto Rico."

"After nearly two years, Puerto Rico is still dealing with the aftermath of Hurricanes Irma and Maria, which devastated portions of Puerto Rico's infrastructure and highlighted the critical need for lasting and sustainable improvements in Puerto Rico," said EPA Regional Administrator Pete Lopez. "Empowering PRASA to once again receive state revolving funds is part of EPA's comprehensive and continuing efforts to help Puerto Rico recover. We are dedicated to helping Puerto Rico rebuild stronger and better."

After many years of successful repayment, PRASA was unable to meet its SRF loan repayment obligations as of July 1, 2016. Since then, the loans have been in forbearance while EPA and key Puerto Rican authorities have worked in good faith with PRASA to develop a restructuring agreement for PRASA's debt. EPA's SRF experts played a key role in facilitating the discussion and resolution.

The finalization of the restructuring agreement will ensure the repayment of PRASA's SRF loans, and PRASA will be eligible to apply for financial assistance from the Puerto Rico SRFs, which will help ensure the continued protection of public health and the environment for the residents of Puerto Rico. The sound management of the state programs has ensured that the SRFs remain at the forefront of funding innovative solutions for treating wastewater, providing safe drinking water, addressing stormwater runoff, tackling non-point source pollution, and addressing a multitude of other environmental and public health issues facing this nation.

Background

Under the Clean Water and Drinking Water State Revolving Fund programs, EPA provides funding to all 50 states and Puerto Rico to capitalize SRF loan programs. The states contribute an additional 20% to match the federal grants. The Puerto Rico Department of Natural and Environmental Resources (DNER) and the Puerto Rico Infrastructure Financing Authority (PRIFA) administer the clean water SRF; the Puerto Rico Department of Health (DOH) and PRIFA administer the drinking water SRF.

The 51 SRF programs function like infrastructure banks by providing low-interest loans to eligible recipients for drinking water and clean water infrastructure projects. As the loan principal and interest are repaid over time, it allows the state drinking and clean water funds to be recycled or "revolve." As money is returned to a state's revolving loan fund, the state makes new loans to other eligible recipients.

With more than 30 years of federal capitalization grants and state contributions, approximately $80 billion has been invested into these programs. According to EPA's estimate of national drinking water and wastewater needs, over $743 billion is needed for water infrastructure improvements. Through loan repayments and investment earnings, the SRFs have leveraged the $80 billion capital investment to provide more than $170 billion in financial assistance to over 39,900 water quality infrastructure projects and 14,500 drinking water projects across the country.

08/12/2019

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Puerto Rico Restructures 200 Delinquent State Revolving Fund Loans.

The loans will total approximately $571 million in principal

The U.S. EPA and Puerto Rico Aqueduct and Sewer Authority (PRASA) will restructure more than 200 delinquent loans for Puerto Rico's clean water and drinking water State Revolving Fund (SRF) programs. This funding will aid in flooding relief from the aftermath of Hurricanes Irma and Maria. According to an EPA news release, the restructured loans will total approximately $571 million in principal.

"After nearly two years, Puerto Rico is still dealing with the aftermath of Hurricanes Irma and Maria, which devastated portions of Puerto Rico's infrastructure and highlighted the critical need for lasting and sustainable improvements in Puerto Rico," said EPA Regional Administrator Pete Lopez, according to the EPA. "Empowering PRASA to once again receive state revolving funds is part of EPA's comprehensive and continuing efforts to help Puerto Rico recover. We are dedicated to helping Puerto Rico rebuild stronger and better."

Hurricane Irma was named the most powerful hurricane ever recorded in the Atlantic Ocean outside the Caribbean and Gulf of Mexico. The storm made its first landfall on Barbuda in the Caribbean Sept. 6, 2017, moving over Saint Martin and hitting Antigua, as well. Days after Irma hit the U.S., recovery efforts began. Hurricane Maria hit the country of Puerto Rico in September 2017, as well. The hurricane hit Sept. 20 and 21, and hit the Dominican Republic shortly after.

This restructuring will provide funding to improve Puerto Rico's water and sewer systems, and also ensure Puerto Rico residents have clean and safe water, according to the EPA.

"EPA is pleased that Puerto Rico's SRFs are back on track and able to provide critically important funding for clean and safe water," said EPA Administrator Andrew Wheeler, according to the EPA news release. "With this loan restructuring, EPA is protecting taxpayer dollars while ensuring that funding is available for water infrastructure projects that will help build a stronger, safer, and healthier Puerto Rico."

The PRASA provides drinking water to 97% of Puerto Rico's 3.2 million residents and also sewer services to more than half of the residents. According to the EPA, the lack of access to funding has hindered the Island from making water infrastructure repairs and improvements.

The PRASA was unable to meet SRF loan repayment obligations July 1, 2016. EPA and Puerto Rican authorities have worked with PRASA to develop the restructuring agreement for PRASA's debit while the loans have been in forbearance.

AUG 14, 2019

[Appeals Court: Winnetka Stormwater Fee Not An Illegal Tax]

CHICAGO — A state appeals panel has sided with the village of Winnetka, rejecting a homeowner's contention the village's stormwater runoff fee was actually an illegal tax.

The dispute goes back to March 2014, when the village enacted a stormwater utility fee to cover debt service on 30-year municipal bonds worth $61.5 million. The next year, when costs for a tunnel under Willow Road were projected to exceed $80 million, the village changed course.

Resident Mark Green sued the village, alleging the fee actually is a property tax in violation of the uniformity in taxation clause of the Illinois Constitution and Illinois Municipal Code. Cook County Circuit Court Judge Kathleen Kennedy dismissed the initial complaint but the Illinois First District Appellate Court overturned that decision in May 2016.

Continue reading.

The Cook County Record

By Scott Holland | Jul 29, 2019

[Fitch Affirms Illinois' IDR at 'BBB'; Outlook Revised to Stable]

Fitch Ratings-New York-31 July 2019: Fitch Ratings has affirmed the state of Illinois' Issuer Default Rating (IDR) at 'BBB' and revised the Outlook to Stable from Negative.

Additionally, Fitch has affirmed the 'BBB' ratings on the state's outstanding GO bonds, and the 'A-' ratings on the Build Illinois senior and junior obligation sales tax revenue bonds, which are linked to the state's IDR based on state dedicated tax analysis.

The Rating Outlook for the above bonds has been revised to Stable.

Fitch anticipates reviewing ratings for bonds that may be affected the Outlook revision within the next two weeks. These include Metropolitan Pier and Exposition Authority expansion project bonds (BBB-/Negative Outlook), Illinois Sports Facility Authority sports facilities bonds (state tax-supported) (BBB-/Negative Outlook), and Chicago motor fuel tax revenue bonds (BBB-/Negative Outlook).

SECURITY

GO bonds are general obligations, backed by the full faith and credit of the state of Illinois. State statutory mechanisms include an irrevocable and continuing appropriation for all GO debt service, and continuing authority and direction to the state treasurer and comptroller to make all necessary transfers from any and all revenues and funds of the state. The state funds debt service in advance by setting aside 1/12 of principal and 1/6 of interest every month for payments due in the ensuing 12 months.

Build Illinois bonds have a first and prior claim on the state share of the 6.25% unified sales tax and a first lien on revenues deposited into the Build Illinois Bond Retirement and Interest Fund (BIBRI). Debt service payments on the junior obligation bonds are subordinate to outstanding senior lien debt service; the senior lien is not closed.

ANALYTICAL CONCLUSION

The Outlook revision to Stable reflects key developments over the last three months for the state including an unanticipated revenue surge in April 2019 that positioned the state to resolve a sizable fiscal 2019 mid-year budget gap and enact an on-time fiscal 2020 budget. The positive April revenue surprise seen in Illinois, and other states, supported a significant increase in fiscal 2020 estimated revenues, easing the path to budget adoption and allowing the state to reduce (but not eliminate) reliance on non-recurring measures. The state now has a plausible and achievable 2020 budget plan, leaving the state better positioned from a fiscal perspective, and the potential for a rating downgrade in the near-term has receded. The recent gains, however, are somewhat tenuous and their sustainability hinges on the state's actions over the next several years, particularly around the November 2020 ballot initiative on the graduated individual income tax.

Illinois' 'BBB' IDR and GO ratings continue to reflect an ongoing pattern of weak operating performance and irresolute fiscal decision-making that has produced a credit position well below the level that the state's broad economic base and substantial independent legal ability to control its budget would otherwise support. The state's elevated long-term liability position remains a key credit challenge.

Economic Summary
Illinois benefits from a large, diverse economy centered on the Chicago metropolitan area, which is the nation's third largest and is a nationally important business and transportation center. Economic growth through the current expansion has lagged that of the U.S. as a whole, with population stagnation and labor market weakness.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Illinois' broad revenue base, primarily income and sales taxes, captures the diversity of its economy and has shown modest organic growth since the end of the recession. Fitch expects revenue performance to continue to track its slow economic growth. Significant stalling of economic and revenue growth would be a rating concern as it would weaken the state's revenue framework, and its ability to manage budgetary demands and potentially its long-term liability burden as well. The state has unlimited legal ability to raise revenues.

Expenditure Framework: 'a'
Illinois has adequate expenditure flexibility despite elevated carrying costs for debt service and retiree benefits, with much of the broad expense-cutting ability common to most U.S. states. Contribution demands associated with retiree benefits will continue to be a pressure as these benefits are constitutionally protected.

Long-Term Liability Burden: 'a'
Long-term liabilities are an elevated but still moderate burden on Illinois' significant resource base,

even when considering the large accounts payable backlog that the state has accumulated. Illinois has very limited flexibility with regard to modifying existing pension and other post-employment benefit (OPEB) obligations.

Operating Performance: ‘bbb’
Illinois’ operating performance, both during the Great Recession and the subsequent economic expansion, has been very weak. The state will be challenged to rebuild its financial resilience given the persistence of a structural budget gap and the sizable accounts payable backlog.

RATING SENSITIVITIES

MATERIAL WEAKENING OF FINANCIAL OPERATIONS: Fitch will downgrade the state’s IDR if the state exacerbates its structural budget challenges through measures such as materially increasing the burden posed by its accounts payable balance and other liabilities, or otherwise notably increasing the use of non-structural budget maneuvers during a period of ongoing economic and revenue growth.

PENSION OBLIGATION MANAGEMENT: Implementation of proposals to defer or similarly alter annual pension obligations without offsetting measures to reduce long-term costs could also trigger a downgrade. The governor had proposed such a measure in his executive budget that Fitch previously noted as a rating concern, but the enacted budget did not include significant pension changes. Illinois remains very constrained in its ability to revise benefit costs given state constitutional limitations.

INCOME TAX CHANGES UNCERTAIN: A proposed graduated individual income tax could raise substantial revenue, but faces a long and uncertain path before implementation. The credit implications of the November 2020 vote on the income tax amendment depend on whether Illinois uses any increased revenues to address structural budget challenges, or if the state can adequately adjust its budget to work towards structural balance if the amendment fails.

ONGOING BUDGETARY BALANCE: Upward rating momentum is unlikely until the state more comprehensively addresses its accumulated liabilities including the accounts payable balance.

ECONOMIC RESOURCE BASE

Illinois is a large, wealthy state at the center of the Great Lakes region. It benefits from a diverse economy focused around the Chicago metropolitan area. Illinois’ economy has gradually shifted, similarly to the rest of the U.S., away from manufacturing to professional and business services. The remaining manufacturing sector is less concentrated in the auto sector than surrounding states but remains vulnerable to cyclical downturn. By most measures the economy has grown slower than the nation for many years, and population levels have been stagnant, with modest losses in the current decade.

Illinois is one of only three states that the Census Bureau estimates have seen year over year population declines for at least the past five years – Connecticut and West Virginia are the others. While Illinois’ total losses are less significant than in those states, Illinois’ pace of estimated declines has modestly accelerated each year. Chicago is critical to the state’s overall economic trajectory, and the city has also seen modest estimated population losses for the past four years according to the Census Bureau. Despite these trends, the state’s economy has continued to grow, as have tax revenues even netting out the estimated effects of the individual income tax (IIT) and corporate income tax rate increase effective on July 1, 2017.

While not anticipated, reversal of currently modest economic growth to outright contraction during a time of national economic growth could weaken Fitch's assessment of the state's revenue framework. This would hamper the state's ability to leverage its robust revenue-raising flexibility to manage its budget.

CREDIT PROFILE
Revenue Framework
Illinois has a diversified revenue base. It relies most heavily on individual income taxes and sales taxes, which combined provide approximately four-fifths of state sources in general funds. The balance consists of corporate income tax, lottery and gaming revenues and a variety of other smaller taxes and transfers. The state raised the individual income tax rate to 4.95% from 3.75% and the corporate income tax rate to 7.0% from 5.25% as part of the fiscal 2018 budget. In 2019, the legislature authorized a ballot question for the November 2020 general election ballot to amend the state constitution and permit a graduated income tax. The legislature and governor also approved a bill that sets new IIT rates and raises the corporate income tax rate effective January 1, 2021 if the amendment passes, which legislative sponsors and the governor estimate could generate $3.6 billion in new revenues. Some of that revenue will go towards tax relief measures included as part of the legislative package, but the state estimates net new revenues (including both the IIT and corporate income tax increases) would still approximate $3.5 billion annually (just under 10% of fiscal 2020 state sources in general funds) upon full implementation.

Historical revenue growth, adjusted for the estimated effects of tax policy changes, has generally been near inflation but has lagged national economic growth. With Illinois' economic performance also lagging national growth, Fitch expects a continuation of this trend of flat to modest real policy-adjusted revenue growth. Unexpectedly weak economic performance could lower Fitch's view of the state's baseline revenue growth prospects.

Illinois has no legal limitations on its ability to raise revenues through base broadenings, rate increases or the assessment of new taxes or fees.

Expenditure Framework
As with most states, Illinois' spending is largely for social services and education. But its carrying costs for debt service and retiree benefits are comparatively high at approximately 19% in fiscal 2017 and retiree benefits have very strong legal protections. Based on the current inadequate 90% statutory funding target and a review of comprehensive annual financial reports (CAFRs) for the states' key pension systems, Fitch estimates carrying costs rose as a share of Illinois' governmental spending in fiscal 2018, and will continue doing so.

Spending growth, absent policy actions, is likely to be higher than revenue growth, driven mainly by increasing pension demands. Pension costs are unusually large and, as noted above, will continue to grow under current law. Illinois has chronically underfunded its pension system based on a statutory formula that targets only 90% of full actuarial funding over the long term.

As with most states, other spending drivers include Medicaid and education. The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program as well as federal government rules limit the states' options in managing the pace of spending growth. Federal action to revise Medicaid's programmatic and financial structure appears less likely in the near term given divided control in Congress.

Despite carrying costs that are among the highest of the states and rising, Fitch believes that Illinois retains adequate expenditure flexibility. Illinois funds a broad range of services for its citizens and did not significantly reduce spending either during or since the Great Recession. The state has ongoing capacity to implement spending reductions via reduced appropriations should it choose to do so.

Importantly, absent a constitutional change, Illinois appears to have no ability to unilaterally modify retiree benefits, including OPEB, for current employees and retirees. In 2014, the Illinois Supreme Court ruled OPEB was covered under the state constitution's pension protection clause and could not be diminished and impaired, invalidating 2012 statutory measures changing OPEB. And the following year, the same court found 2013 pension changes unconstitutional. Given the magnitude of annual pension contributions in particular (more than 10% of spending), this notably constrains the state's expenditure flexibility compared to most other states.

Current annual pay-as-you-go OPEB payments are very modest at less than 1% of total governmental expenditures. But the actuarially calculated annual required contribution is approximately 4% of spending (and about one-third of the pension actuarially determined contribution). As with most states, Fitch anticipates the annual OPEB payments will continue rising given the state's pay-as-y-u-go funding approach and demographic trends indicating a growing retiree population.

Pension Contributions and Budgetary Relief Measures
Budgetary relief on pension contributions was part of the fiscal 2018 and 2019 enacted budgets, but the actual savings have generally fallen short of expectations. A third tier of pension benefits enacted in the fiscal 2018 budget was projected to save $500 million that year but appears unlikely to progress with none of the systems taking steps toward implementation due to reported deficiencies in the enacted legislation.

The fiscal 2019 enacted budget included approximately $400 million in savings from several changes to the state's pension plans intended to lower liabilities including two buy outs of some portion of current members' future benefits. The pension systems recently reported actual fiscal year 2019 budgetary savings of only $20 million relative to their previously certified contribution levels.

Under a third change enacted with last year's budget, the state lowered the cap to 3% from 6% on final average salary (FAS) salary increases used to calculate pension benefits for the teachers and state university systems. The state currently bears essentially the full liability for these pension systems. The change required that local employers bear the sole financial responsibility for any salary increases they grant above 3% in the final years of the employee's career.

The 2020 budget extends the two buyouts through fiscal 2024 and reverses the 2019 budget's FAS cap (reverting it back to 6%). Prudently, savings from extension of the buyouts are not incorporated into the budget plan. The administration estimates the FAS reversal will increase state spending modestly, by approximately $20 million in fiscal 2020, escalating to around $60 million four years later, and then rising with payroll growth thereafter.

New Labor Agreement Brings Certainty to Expenditures
In conjunction with the enactment of the fiscal 2020 budget, the state also reached an agreement with its primary state employees union, the American Federation of State, County and Municipal Employees Council 31 (AFSCME), running through June 30, 2023 and including the period since June 30, 2015 when the last contract expired. The state also implemented retroactive step-pay increases required following litigation decided last year. The new contract includes one-time stipends for the period without a contract, and annual salary increases ranging from 1.5% to 3.95% beginning in the current year, as well as increases for employee healthcare contributions and co-pays. The state estimates overall healthcare savings could offset the anticipated costs for the contract over the four-year term.

Long-Term Liability Burden

Illinois' long-term liabilities, particularly pension liabilities, are very high for a U.S. state. As of Fitch's December 2018 State Pension Update report, the state's combined debt and pension burden was 29% of personal income, well above the 6% state median and the highest of the states. Based on debt information through March 1, 2019, the long-term liability is approximately 29%. Fitch estimates the state's total long-term liabilities at approximately $200 billion with pensions accounting for about 80%. This incorporates pension data from fiscal 2017 as the state's 2018 CAFR has not been released. Based on analysis of the most recent state pension system CAFRs, Fitch estimates the state's long-term liability burden based on fiscal 2018 CAFR data will be modestly higher than the current reported level.

The state's three largest pension systems, covering teachers outside of Chicago, public universities, and state employees, have low levels of assets to liabilities driven by a history of weak contribution practices. Net pension liabilities, and related contribution demands, are expected to grow as the state continues to underfund the systems. Based on the Teachers Retirement System (TRS) establishing a 20-year closed amortization period in calculating its actuarially determined contribution (ADC), the state reports the fiscal 2017 pension contribution was approximately 75% of the ADC.

Unfunded OPEB liabilities are sizable at $38 billion, just ahead of the state's outstanding debt. The OPEB liability represents 6% of personal income and will continue escalating as the state funds its obligations on a pay-as-you-go basis and is legally constrained from making changes for current employees and retirees.

Fitch's assessment of Illinois' long-term liability burden also reflects a sizable account payable balance accumulated through multiple years of operating deficits, which adds to its ultimate long-term funding demands. Incorporating the full general funds bills backlog of $7.3 billion (as of June 30 in the state comptroller's monthly debt transparency act report) only increases the more than $200 billion Fitch-adjusted long-term liability burden modestly, although it poses budgetary challenges and limits the state's financial operating flexibility. The accounts payable balance reached a peak of $16.7 billion in November 2017 before the state swapped a portion of the payables for GO bonds. The enacted 2020 budget includes authorization for another $1.2 billion in GO borrowing this year to again replace accounts payable.

Recent Litigation Not Affecting State Ratings
The state is the subject of recent litigation brought by a hedge fund and the CEO of the Illinois Policy Institute (IPI, a fiscal policy advocacy group) claiming the 2017 bill backlog GO bonds and 2003 pension funding GO bonds are unconstitutional and should be invalidated by state courts. Illinois' governor, comptroller, treasurer and attorney general dispute the allegations and in their petition responding to the suit, argued that the bonds fulfill all state constitutional requirements.

As with all state debt, the 2003 and 2017 bonds were approved by the attorney general at the time and bond counsel. Fitch does not consider the filing of this litigation to be a material credit factor but will monitor developments in the case and assess any implications for Illinois' credit profile. The state reports the first hearing on the case (John Tillman and Warlander Asset Management versus the state's governor, treasurer, and comptroller) is scheduled for August 15 in the circuit court for the seventh judicial circuit in Sangamon County.

Operating Performance

Illinois remains comparatively poorly positioned to address a future economic downturn. The states' approach to budgetary gaps has historically been to delay payments, as it did during the Great Recession when it accrued an accounts payable balance that reached 23% of the general funds operating budget in fiscal 2012. The accounts payable balance well exceeded that recessionary peak following the budget inaction between fiscals 2016 and 2017, reaching a level nearly half of fiscal 2018 revenues in November 2017. As noted above the balance has subsequently been reduced to approximately $7.3 billion as of June 30, 2019 primarily through proceeds from specifically authorized GO bonds and application of federal Medicaid matching funds.

Even with these measures, Illinois continues to carry a sizable accounts payable balance of approximately one-fifth of general funds revenues, well above what Fitch and the state consider normal. Absent robust and sustained budgetary improvement and a commitment to addressing the backlog, Illinois will maintain a similar sizable accounts payable balance into the foreseeable future. Replacing accounts payable with long-term debt has some fiscal benefits given lower interest costs for bonds, but simply shifts, rather than reduces, the overall liability burden.

Fitch anticipates the state would look to address future deficits by again deferring payments. But its ability to do so may be limited by the persistence of the current backlog at a time of economic recovery and payment demands prioritized by court order or other legal requirements, such as for Medicaid and employee salaries, that reduce that flexibility.

Illinois' budget management during the current extended period of expansion has been exceptionally weak. Recent revenue gains stabilized the state's credit profile over the near-term, but long-term trends remain a significant credit concern.

Temporary increases in individual and corporate income tax rates in place for four years, from Jan. 1, 2011 through Dec. 31, 2014, closed or partially closed budget gaps across five fiscal years. However, with their expiration, and the failure to enact a spending plan within expected revenues, the budget gap ballooned in ensuing fiscal years. Revenues were well below expenditures and accounts payable accumulated at a rapid rate until tax increases were enacted with the fiscal 2018 budget. Although the fiscal 2018 tax increases closed a substantial portion of the shortfall, a significant structural gap remains.

As discussed further below, unanticipated growth in tax collections in fiscal 2019 allowed the state to address a sizable mid-year 2019 gap, and enact a timely 2020 budget that achieves budgetary (but not structural) balance. A gubernatorial proposal for a graduated income tax could generate significant additional revenue to help address the structural gap – but implementation is at least 17 months away and far from certain. The legislature approved moving the proposed amendment to the 2020 ballot, and companion legislation with proposed new tax rates in the 2019 session. But the amendment still requires voter approval at the November 2020 general election and would not be effective until January 1, 2021.

Until the state makes more substantive progress towards ongoing structural balance, either through revenue increases, expenditure reductions, or a combination, Fitch's assessment of Illinois' budget management at times of economic recovery and expansion will likely remain weak.

Current Developments

The state achieved a break in a two-year budgetary impasse with the passage of the fiscal 2018 budget and enacted an on-time budget for fiscal 2019. But neither plan fully addressed the state's ongoing structural challenges. The fiscal 2018 budget included an estimated $4.5 billion in additional revenues from the increase in individual and corporate income tax rates and limited general funds spending growth, but did not make significant reductions in spending.

Although Illinois avoided another budget impasse for fiscal 2019, the enacted budget ($38.5 billion in general funds) was reliant on one-time items and policy measures with uncertain fiscal benefits. The budget also failed to make material progress in addressing the state's sizable accounts payable backlog. Recognizing many of the key implementation risks embedded in the budget, the new governor estimated a fiscal 2019 general funds budget deficit of between $897 million and $1.3 billion soon after he took office in January 2019.

April Surprise Addresses 2019 and Eases 2020 Process

An unanticipated surge in revenue collections in April 2019 positioned the state to address its fiscal 2019 budget challenges, and also eased the path to enactment of the fiscal 2020 budget. Monthly general funds tax collections increased 32% year over year (yoy) in April 2019 and led the governor's office of management and budget (GOMB) to increase its general funds tax revenue estimate by roughly $1.5 billion from the governor's executive budget estimate made in February.

Neither the administration nor the legislature's Commission on Government Forecasting and Accountability (COGFA) has reached a definitive conclusion on the basis for the revenue surge. In developing its own revised revenue estimate for fiscal 2019, COGFA noted that most of the increase in revenues came from final extension payments of the individual income tax. COGFA speculated that various factors including taxpayer responses to the 2017 federal tax changes or capital markets activity could have played a role.

The state's enacted fiscal 2020 budget benefited considerably from the robust revenue performance. Based on these strong collections, the state upped its general fund tax revenue estimates for fiscal 2020 by roughly $762 million (2%) from the governor's executive budget estimate in February. With the higher revenue base, the enacted budget avoided several one-time measures in the governor's executive proposal (including a pension re-amortization and bonding plan) but does still rely on a non-recurring tax amnesty plan ($175 million) and $100 million in interfund borrowing. The budget also includes an estimated $500 million in new recurring revenues from a healthcare managed care organization (MCO) assessment that will leverage federal matching revenues and support Medicaid spending.

MCO Assessment Requires Federal Approval

The MCO assessment requires approval from the federal government's Centers for Medicare & Medicaid Services (CMS), which has tightened rules around similar taxes over the past several years. To comply with federal rules, Illinois intends to apply the tax to all MCO's in the state (whether they participate in Medicaid or not). Illinois also intends to tier the rates so non-Medicaid plans pay a lower assessment.

CMS recently approved MCO assessments similar to Illinois' proposal for California, Ohio, and Michigan but only Michigan's came under the current administration. Until CMS approved Michigan's assessment in December, it was not clear if the current federal administration would support these plans. Illinois is working with CMS to develop a proposal that meets federal requirements and provides the significant budgetary relief included in the 2020 enacted budget.

The state reports that if an MCO assessment is approved by CMS, it can be levied retroactively for the full fiscal year to generate all budgeted revenues. Outright rejection of Illinois' MCO assessment, or approval at a reduced level could force the state to make mid-year adjustments in 2020.

2020 Budget Includes Education Funding Increases and a Liability Swap

On the spending side, the enacted $40.1 billion general funds budget for fiscal 2020 includes a roughly $450 million increase in K-12 funding from the prior year (approximately 5%) with $389 million flowing through the evidence-based funding formula. The budget also includes funding for the new multi-year labor contract with AFSCME, which represents a significant share of state employees.

While the state forecasts a budgetary surplus of roughly $150 million in fiscal 2020, Fitch notes this incorporates non-recurring items noted above. Any surplus will pay down a portion of the state's bill backlog. As noted above, the state also authorized issuance of $1.2 billion in GO bonds to support further pay down but this simply swaps one liability for another.

The 2019 legislative session also included enactment of a $45 billion capital bill, with $21 billion expected to come via bonding. Primary revenue sources for the capital bill include increases in the motor fuels tax rate ($590 million projected by the state in fiscal 2020) and vehicle registration fees ($475 million annually); and expanded gaming including sports wagering (at least $350 million annually and more than $1 billion in one-time licensing fees).

Build Illinois Bonds Rating Details
The 'A-' rating for the Build Illinois senior and junior lien bonds reflects Fitch's linkage of the rating with the state of Illinois' IDR. Structural protections for the bonds warrant a rating no more than two notches above the state's IDR because the bond security includes a statutory pledge of the state share of sales tax revenues (rather than a constitutional or voter-approved pledge), and those revenues flow to state general operations after debt service set-asides. Fitch considers growth prospects for the pledged share of state sales tax revenues to be modest given similar overall expectations for the state's economy. The structure for the bonds, even assuming leverage up to the full additional bonds test capacity, provides robust resilience through a moderate economic downturn for both senior and junior lien bonds. Fiscal 2018 pledged revenues covered maximum annual debt service on the combined senior and junior liens by a strong nearly 30x.

For additional information on the Build Illinois bonds please see "Fitch Rates $245MM Build Illinois Bonds 'A-'; Outlook Negative" published Oct. 1, 2018 on www.fitchratings.com.

Asymmetric Additional Risk Considerations
Illinois has demonstrated a repeated inability to address its structural challenges due to an absence of consensus and resistance among key stakeholders. Despite progress in the most recent legislative session, the track record for the political environment in the state, and its hampering of prudent fiscal policy, remains a negative rating consideration.

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Fitch Affirms Pennsylvania's IDR at 'AA-'; Outlook Revised to Stable

Fitch Ratings-New York-30 July 2019: Fitch Ratings has affirmed the Commonwealth of Pennsylvania’s Issuer Default Rating (IDR) at ‘AA-‘. The Rating Outlook is revised to Stable from Negative.

Additionally, Fitch has affirmed the ‘AA-‘ ratings on the commonwealth’s outstanding general obligation (GO) bonds, the ‘A+’ and ‘AA-‘ ratings on bonds supported by commonwealth appropriations or otherwise capped at the commonwealth’s IDR, and the ‘A+’ ratings on the commonwealth school credit enhancement programs linked to the commonwealth’s IDR. Bonds and programs linked to the IDR are listed at the end of this release.

The Rating Outlook for all debt is revised to Stable.

SECURITY
The GO bonds are direct and general obligations of the Commonwealth of Pennsylvania, with its full faith and credit pledged.

The appropriation-backed bonds issued by the commonwealth financing authority (CFA) and the Pennsylvania Economic Development Financing Authority (PEDFA) are supported by annual, or continuing in the case of CFA, appropriations. While the CFA appropriation does not require annual renewal, it can be amended or repealed by the legislature.

The motor license fund-enhanced (MLF) subordinate special revenue bonds are payable in the first instance from a junior pledge on the trust estate, which consists primarily of residual toll revenues. Ultimate security for the bonds, and the rating, rest with the ability to access certain monies in the Commonwealth’s MLF to fund debt service if necessary.

The ratings on the various school credit enhancement programs reflect Pennsylvania’s overall credit quality, as well as the breadth and strength of the commonwealth’s school aid intercept statutes and associated security features.

ANALYTICAL CONCLUSION

The Outlook revision to Stable from Negative reflects the commonwealth’s timely enactment of a fiscal 2020 budget that makes continued strides towards structural balance, while also making a notable deposit to its rainy day fund. After multiple delayed budgets, the fiscal 2020 budget was the second consecutive year with an on-time budget. A robust, and unanticipated spike in fiscal 2019 revenue collections provided essential support for these improvements.

The ‘AA-‘ IDR reflects Fitch’s view that despite these gains, Pennsylvania continues to rely on non-recurring budget measures which reduces its financial resilience. The commonwealth is more at risk in the event of a moderate economic downturn than many other states. Pennsylvania, like nearly all U.S. states, continues to benefit from broad budgetary powers as reflected in ongoing efforts to reduce baseline spending and enact recurring revenue changes. But fiscal pressures in the form of a structurally unbalanced budget, brought on by rising fixed costs, modest baseline revenue growth and a historically contentious decision-making environment have limited the commonwealth's fiscal flexibility.

Economic Summary
Pennsylvania's broad economy is growing, but at a slower pace than the U.S. Below-average demographics, including population growth that has lagged the nation's for several decades, represent a long-term drag on economic growth. Ongoing development of Pennsylvania's significant natural gas reserves could mitigate that concern, but that potential is tempered by fluctuations in natural resource markets. Overall, the state's economy provides a solid base for future potential revenue growth to help manage ongoing expenditure pressures.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Fitch expects Pennsylvania's revenues will continue to reflect the depth and breadth of the economy but also its slower pace of growth. The commonwealth has complete legal control over its revenues.

Expenditure Framework: 'aa'
Pennsylvania maintains solid expenditure control with broad executive authority over spending and a low burden of carrying costs for liabilities. Medicaid remains a key expense driver, as with all U.S. states.

Long-Term Liability Burden: 'aaa'
The commonwealth's long-term liability burden is low. A recently completed ramp-up to making full actuarially determined contributions could slow future growth in net pension liabilities and lead to liability declines, if maintained over time and if actuarial assumptions are met.

Operating Performance: 'a'
Pennsylvania retains strong gap-closing capacity, but at a level below that of most U.S. states. The ongoing and regular reliance on non-recurring measures has eroded the state's general budgetary flexibility. Pennsylvania's rainy day fund balance has improved but remains small relative to the state's overall budget. The commonwealth is somewhat less exposed to revenue volatility from U.S. economic cycles than most states, offsetting some of the risk of a moderate downturn on its operating profile.

RATING SENSITIVITIES
Commitment to Restore Fiscal Balance: Fitch anticipates the commonwealth may be challenged in continuing its current path of slow progress in reducing the imbalance through new recurring revenues, expenditure reductions or a mix of both. A pattern of weakening fiscal practices during the ongoing national economic expansion, including growth in the structural deficit, could trigger a downgrade. Conversely, a sustained shift away from non-recurring items to balance the state's annual budgets, continued improvements in fiscal decision-making, and gains in the commonwealth's fiscal resilience such as through further additions to the rainy day fund, could all support an upgrade.

IDR-Linked Ratings: The ratings on the various related ratings linked to or capped by the IDR are sensitive to changes in that rating.

ECONOMIC RESOURCE BASE

CREDIT PROFILE

Revenue Framework

Pennsylvania’s personal income tax and sales and use tax serve as the primary revenue sources, accounting for approximately three-quarters of general fund revenues. Fitch anticipates Pennsylvania’s overall revenue growth trend will remain modest, underscoring the importance of developing recurring solutions for the commonwealth’s structural budget imbalance.

Historical revenue growth, adjusted for the estimated effect of policy changes, has been near the rate of inflation over the past 10 years. YoY growth was robust leading into the Great Recession, but has moderated considerably since the recessionary declines in fiscal years 2009 and 2010. Fitch anticipates the long-term trend for revenue growth will remain in line with inflation and trail the pace of national economic growth given Pennsylvania’s slowly growing economy.

The commonwealth has no legal limitations on its ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

Expenditure Framework

As in most states, education and health and human services spending are Pennsylvania’s largest operating expenses. Education spending is the largest expense from state funds as the commonwealth provides significant resources for local school districts and the public university and college system, but health and human services spending is likely to outpace it in future years given recent trends. Medicaid is the largest component of health and human services spending.

Pension contributions have grown considerably over the past several years as the commonwealth ramped up spending in line with a statutory plan enacted in 2010 to achieve full actuarial contributions. Having reached full funding under that plan in fiscal 2017, state spending increases should moderate, assuming actuarial assumptions for the pension plans are met. Fitch does not anticipate pension contributions will be a material driver of the pace of overall expenditure growth going forward.

Spending growth in the commonwealth, absent policy actions, will likely be in line with to marginally above revenue growth, driven primarily by Medicaid. The fiscal challenge of Medicaid is common to all U.S. states, and the nature of the program as well as federal government rules limits the states’ options in managing the pace of spending growth. Federal action to revise Medicaid’s programmatic and financial structure appears less likely in the near term given divided control in Congress.

Like many states, Pennsylvania has implemented various measures to control Medicaid growth, with a recent shift to managed care for the long-term care population being the most recent and one of the most potentially significant. The transition has been complicated and the commonwealth phased it in geographically to manage implementation issues. To date, the managed care transition has led to some volatility in Medicaid spending as the state increases spending to address unanticipated transition costs, particularly for fiscal 2019 as discussed below. Fiscal 2020 is the last transition year. Fitch will closely monitor the commonwealth’s ability to manage another material increase in transition costs, and whether the shift to managed care allows for long-term savings and/or more predictable Medicaid budgeting.

Pennsylvania retains solid expenditure flexibility. The low carrying cost metric of approximately 5% of governmental fund expenditures in fiscal 2018 includes debt service, actuarial pension funding demands, and other post-employment benefits (OPEB) pay-go costs. Pension costs reflect the state’s contributions to the state employees’ retirement system (SERS) and a modest contribution to the public school employees’ retirement system (PSERS) for certain employees. It excludes state appropriations made to school districts to reimburse them for a portion of their pension contributions.

Like most states, Pennsylvania's operating budget goes largely toward the funding of services rather than direct service delivery, allowing the commonwealth to shift costs to lower levels of government in times of fiscal stress and thereby providing a key source of flexibility. However, the challenges faced by the commonwealth in agreeing on annual budgets until last year reflect practical limits on Pennsylvania's expenditure flexibility.

Long-Term Liability Burden

Pennsylvania maintains a low long-term liability burden. Per Fitch's November 2018 State Pension Update report, the commonwealth's total debt and net pension liabilities of approximately $41 billion equaled 6% of 2017 personal income, matching the 50-state median. Based on the most recently available data, Pennsylvania's current long-term liability burden for debt and pensions remains approximately 6% of 2018 state personal income.

Debt levels primarily reflect borrowing for various capital needs including facilities, transportation, and water and sewer infrastructure. The commonwealth uses a mix of GO and appropriation-backed bonds. Approximately two-thirds of outstanding debt is GO. The state has used multiple entities and mechanisms to issue appropriation debt, which is used primarily for water and sewer needs, economic development initiatives, and most recently to support public school capital projects. Fitch's calculation incorporates approximately $697 million in project debt associated with the Rapid Bridges Replacement availability payment-based public private partnership (P3) entered into by the commonwealth's department of transportation.

In 2018, Pennsylvania issued $1.5 billion of operating debt as appropriation-backed bonds through the CFA. Proceeds were used primarily to address an unanticipated revenue shortfall in fiscal 2017 and allowed the commonwealth to restore budgetary balance in its general fund. Pennsylvania issued the bonds as tobacco master settlement bonds, intending to redirect settlement revenues to cover debt service, but with a general fund appropriation backstop common to most CFA debt.

Pennsylvania's pension obligations are for SERS and PSERS. SERS includes state employees and employees of certain state-related organizations, and the commonwealth bears the vast majority of the system's liability. PSERS includes public school employees, and the liability is shared between local school districts and the commonwealth. Pennsylvania makes a small direct PSERS contribution and also provides much more sizable reimbursements to school districts for their direct pension contributions. Accordingly, under GASB 68, the commonwealth bears just a small share of the system's liability commensurate with its own direct system contributions.

The commonwealth contributions were consistently short of the actuarially calculated amounts for both SERS and PSERS for many years, but the percentage paid steadily increased in line with legislation enacted in 2010, and reached full actuarial contributions for both systems in fiscal 2017. Recent benefit changes will shift new hires to a hybrid pension with a defined contribution component, among other changes, with savings to the commonwealth likely to accrue only gradually, with workforce turnover.

Operating Performance

Pennsylvania's ability to respond to cyclical downturns relies on the superior budget flexibility common to most states, but has been limited by slow progress in addressing an ongoing structural imbalance and, until very recently, the lack of meaningful reserves. Given continued reliance on non-recurring budgetary measures throughout the current period of economic growth, Fitch anticipates Pennsylvania would have fewer balancing options available to it than most states in a moderate downturn. Mitigating this, Fitch's FAST model highlights that the commonwealth's revenue base has proven less exposed to national economic cyclicality than other states. Despite continued steps to moderate spending growth, the fiscal 2019 budget continues a pattern of modest recurring revenue changes that are insufficient to fully support the expenditure base.

The commonwealth depleted its rainy day fund during the Great Recession but did make a modest contribution at the end of fiscal 2018 of approximately $22 million and a more sizable $317 million deposit at the end of fiscal 2019. During the economic expansion, Pennsylvania had repeatedly suspended a statutory requirement to dedicate 25% of any unappropriated general fund balance to its Budget Stabilization Reserve Fund (BSRF). General fund balances, when available, had instead been used to support annual budget needs. Solid revenue growth in fiscal 2018 allowed the commonwealth to exceed its modest budgeted BSRF contribution of roughly $10 million. Unexpectedly strong revenues in fiscal 2019 allowed the commonwealth to make a more substantial contribution.

Throughout the current national economic expansion, Pennsylvania has continued to employ non-recurring budgetary measures. The commonwealth has utilized fund transfers, changes in timing of state expenditures, and one-time revenue sources (including operating debt) to achieve annual budgetary balance in recent years. Pension funding deferrals, a budget balancing tool used consistently in the past, ended in fiscal 2017 and the commonwealth has made some progress in reducing the reliance on non-recurring measures overall. The fiscal 2020 budget includes approximately $600 million in various one-time measures, or 2% of the enacted general fund appropriations. The 2019 budget relied on more than $1.0 billion such measures, and the fiscal 2018 budget relied on even more including the $1.5 billion in tobacco settlement revenue-supported operating debt noted earlier.

The difficulty in addressing fiscal challenges has led to repeated delays in budget enactment, particularly when control of the executive and legislative chambers has been split along partisan lines. Until the fiscal 2019 budget, every fiscal year under the current Democratic governor (who took office in January 2015 facing a Republican-controlled legislature), has started without a full budget in place. In fiscal 2016, the delay lasted approximately nine months and in fiscal 2018 the delay lasted into the fourth month of the fiscal year. In 2018, with gubernatorial and legislative elections looming, all sides enacted an on-time budget for fiscal 2019. The 2020 budget process benefited from both above-budget revenues in fiscal 2019 that mitigated potentially difficult fiscal choices, and a gubernatorial executive budget that did not include any significant tax policy changes which had been a sticking point in prior year’s budget negotiations.

The commonwealth’s Independent Fiscal Office (IFO; an office created by statute several years ago and technically part of the legislature) reports every November or December on its five-year outlook for the commonwealth’s fiscal position, including an estimate of the projected general fund structural budget position based on estimated revenue growth and a current services expenditure projection. The IFO’s estimates since December 2015 have indicated clear progress in the commonwealth’s efforts to address its structural imbalance, but also the magnitude of the remaining challenge. The IFO’s projected general fund ending balance in fiscal 2021 improved from negative $2.9 billion in the December 2015 forecast to negative $1.6 billion in the November 2018 forecast, which incorporates effects of the commonwealth’s enacted fiscal 2019 budget plan. The projected fiscal 2021 deficit is 5% of projected general fund expenditures for that year.

Current Developments

Robust Fiscal 2019 Revenues Support Mid-Year Spending Needs and Reserves Funding

Preliminary results through the end of fiscal year 2019 in June indicate general fund revenues out-performed the budgeted estimate by nearly $900 million, or 2.6% providing fiscal relief for mid-year pressures and allowing the state to make a deposit to its rainy day fund, boosting fiscal resilience.

Corporate net income collections exceeded the estimate by $471 million reaching $3.4 billion (up 18% from fiscal 2018), while sales tax revenues were $347 million ahead of the estimate for a preliminary total of $11.1 billion (up 6.9%). Personal income tax revenues of $14.1 billion were in line with the enacted budget estimate.

The robust gains in corporate and sales tax collections are likely to moderate in fiscal 2020. Fitch attributes at least some of the corporate gains to the 2017 federal tax changes including one-time repatriation of foreign income. Sales tax revenues may have received a boost following last June's Wayfair Supreme Court decision authorizing states to levy sales taxes directly on remote sellers, including online retailers. Adding new filers in fiscal 2019 could have driven revenue gains in fiscal 2019 but they will be built into the base going forward.

The revenue gains proved critical in fiscal 2019 as the commonwealth faced nearly $700 million in mid-year spending needs due to ongoing litigation that held up a $200 million fund transfer from the Pennsylvania Professional Liability Joint Underwriting Association (JUA) and nearly $500 million in supplemental costs for Medicaid. The supplemental Medicaid costs came as the state implemented the next phase of its transition of long-term care provision to a managed care model. Pennsylvania reported implementation in the densely-populated southeastern section of the state in fiscal 2019 proved more costly than anticipated. Fiscal 2020 is the final year of implementation for the managed care transition and the administration does not anticipate a similar spike in costs given the less complex nature of the affected geographic region.

Even after addressing these supplemental spending needs, the commonwealth still had more than $300 million available for deposit into its rainy day fund. The fund currently holds $340 million, a modest 1% of the fiscal 2020 appropriations – it peaked at $755 million in fiscal 2009 before it was fully drawn down in fiscal 2010 during the Great Recession.

2020 Budget Adoption Proceeds Smoothly – One-Time Measures Reduced

Enactment of a second consecutive on-time budget could reflect a possible shift away from a recent trend of impasses, though the strong revenue position certainly eased passage. Also, the governor did not include material tax policy changes in his original executive budget plan, which Fitch believes eased negotiations with the legislature for the fiscal 2020 budget. Separate from the budget, the governor proposed a natural gas severance tax to support a range of capital project initiatives. The legislature may take up the proposal when it returns for its fall session.

The enacted budget incorporates modest general fund revenues growth with tax revenues up 2.5% from actual results for fiscal 2019. Growth in personal income, sales, and corporate taxes are all projected to slow from relatively robust, and likely one-time gains in fiscal 2019. General fund spending is up modestly as well at less than 2% annually with a $300 million overall increase in K-12 education funding with a $160 million increase in basic education aid flowing through the Fair Funding Formula. The budget incorporates a number of one-time items (including, once again, a $200 million JUA transfer which is the subject of ongoing litigation – to date, all decisions in the cases have gone against the commonwealth), reflecting Pennsylvania's ongoing structural budget challenges. But the magnitude appears lower than in past years, and the budget also incorporates a nearly $200 million surplus providing some cushion.

Commonwealth Financing Authority Bonds Rating Details

The revenue bonds are limited obligations of the authority secured by service fees paid by various commonwealth agencies to the Commonwealth Financing Authority (CFA) and assigned to the trustee. Act 85 of 2016 established a continuing appropriation of Article II revenues from

Pennsylvania's general fund to a restricted account to be used for debt service. The continuing appropriation does not require annual renewal but can be amended or repealed by the legislature.

For additional information on the CFA revenue bonds please see "Fitch Rates Pennsylvania Commonwealth Financing Auth's $540MM Rev Bonds 'A+'; Outlook Negative", published April 26, 2019 at www.fitchratings.com.

Pennsylvania Economic Development Financing Authority Bonds for Convention Center Rating Details

The convention center is leased by the commonwealth to the Convention Center Authority and operated via an operating agreement, under which obligations to cover operating deficits, net debt service in the event of a shortfall in intended repayment revenue streams, and capital funding requirements are shifted to the commonwealth from the prior owner, the city of Philadelphia. The intended repayment source for the bonds are certain defined revenues to be received from the city of Philadelphia and the commonwealth but the commonwealth covenants to seek annual appropriations from its General Assembly for amounts beyond those available from the intended sources as necessary to meet its contractual obligations associated with the center. These include, among other items, payment of debt service on the bonds. This appropriation backstop is the basis for the rating, one notch below Pennsylvania's IDR.

Pennsylvania School Credit Enhancement Programs Rating Details

The 'A+' rating on the school credit enhancement programs reflects Pennsylvania's overall credit quality, as well as the breadth and strength of the commonwealth's school aid intercept and direct payment statutes, and associated security features. Sections 633, 785(a) and 785 (b) of Pennsylvania's public school code allow school districts to participate in the intercept program and direct payment programs, and outline the mechanics. Participating school districts must enter into interagency agreements authorizing and directing the Secretary of Education and State Treasurer to either intercept state appropriations and redirect towards debt service (section 633 and 785(a) programs) if a district does not pay itself, or to directly pay the paying agent before aid flows to the district (section 785(b) program). For the intercept programs, Fitch only rates bonds where the district enters into agreements that utilize a sinking fund or similar structure that ensures the intercept will provide timely debt service payments. The one notch-distinction from Pennsylvania's IDR reflects the appropriation risk for state school aid.

Penn Turnpike MLF-Enhanced Bonds Rating Details

The 'AA-' rating is based on the commonwealth's statutory and legal commitments to draw upon certain reserved funds in its Motor License Fund (MLF) to make up any deficiency in debt service deposits. To date, the bonds have been paid from their intended source, the Pennsylvania Turnpike Commission's general reserve fund derived from toll revenues. The MLF receives a variety of fuel and other vehicle-related revenues and has historically exhibited large daily balances. Legislative appropriation is not required to access the MLF to cover a debt service deposit deficiency. Pennsylvania's ability to borrow from the MLF to support its general fund (as it has done as recently as fiscal 2018), and the lack of a direct pledge of MLF revenues, limits the rating on the bonds to the state's IDR.

For additional information on the MLF-enhanced bonds please see "Fitch Rates $87MM PA Turnpike Comm's Motor License Fund-Enhanced Bonds 'AA-'; Negative Watch", published Nov. 29, 2017 at www.fitchratings.com.

Related Ratings

Fitch has affirmed the following ratings that are supported by commonwealth appropriations and therefore linked to the commonwealth's IDR, or otherwise capped at the IDR, as listed below. The ratings carry the same Stable Outlook as the IDR:

–Pennsylvania Turnpike Commission motor license fund-enhanced turnpike subordinate special revenue bonds at 'AA-';
–Pennsylvania Commonwealth Financing Authority appropriation-backed debt at 'A+';
–Pennsylvania Economic Development Financing Authority revenue bonds (Convention Center Project) bonds at 'A+';
–Pennsylvania School Credit Enhancement Intercept Program (PA), State School Bond Program Rating (Intercept Program) – Section 633 at 'A+';
–Pennsylvania State Public School Building Authority (PA), State Building Authority Intercept – Pennsylvania State Public School Building Authority – 785(a) at 'A+';
–Pennsylvania School Credit Enhancement Direct Pay Intercept Program (PA), State School Bond Program Rating (Direct Pay Intercept Program) – Pennsylvania State Public School Building Authority Direct Pay – 785(b) at 'A+'.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Atlanta Scores Nearly $1M to Support Economic Development in Struggling Areas.

The Rockefeller Foundation initiative aims to strengthen underserved areas by wooing private investment

The City of Atlanta is expected to be awarded $920,000 in grants and other support to help fuel economic development in underprivileged areas, thanks to the Rockefeller Foundation.

Atlanta will be just the second city to participate in the New York-based organization's Opportunity Zone Community Capacity Building Initiative, according to a city press release.

Opportunity Zones, identified as part of the 2017 Tax Cuts and Jobs Act, are federally recognized areas that have been historically underserved and are in need of an economic boost.

In Atlanta, there are more than 82,000 residents living within the 26 designated Opportunity Zones.

(To put that in perspective, about 500,000 residents live within city limits.)

Of the nearly $1 million Atlanta is slated to receive, a $400,000 grant is expected to be used to create and pay for a new "Chief Opportunity Zone Officer" position, per the release.

The role would be part of the city's economic development arm, Invest Atlanta.

Other funding will support the placement of two AmeriCorps VISTA (Volunteers In Service To America) members, who'll be tasked with facilitating community involvement in proposed Opportunity Zone projects and businesses. The rest will fund "technical assistance to help develop project pipelines that balance the interests of investors with those of existing community members," the release says.

All in all, the Rockefeller Foundation's gift would be used to attract private investment to what are considered "economically distressed communities."

Invest Atlanta CEO Eloisa Klementich relayed this rather startling fact: "Opportunity Zones are the first federal incentive for community development in 15 years and a unique opportunity to leverage private capital to help achieve Atlanta's economic and community development goals."

The Rockefeller Foundation also plans to grant $600,000 to Cities of Service, a nonprofit dedicated to helping U.S. mayors strengthen their cities by way of economic development.

Atlanta and five other major cities will reap the benefits of that grant.

curbed.com

By Sean Keenan

Aug 1, 2019, 8:35am EDT

Ohio's Budget Bill Includes Economic Development Incentives Provisions.

This article originally appeared in the Summer 2019 edition of *Development Incentives Quarterly.*

On July 18, Ohio Governor Mike DeWine signed a two-year budget bill (HB 166), his first since taking office. Included in the budget bill are a variety of provisions that impact state law governing economic development incentives. Several of the most noteworthy provisions governing economic development incentives are highlighted below.

1. **Job Retention Tax Credit (R.C. 122.171).** The budget bill makes it easier to qualify for a Job Retention Tax Credit (JRTC). For administrative projects (e.g., large office projects) a project can now qualify for the JRTC if it: (i) is located in a foreign trade zone, (ii) has 500 employees, or (iii) has $35 million in payroll. The foreign trade zone is a new addition in the budget bill. If a company elects to locate an administrative project in a foreign trade zone, it can now qualify for the JRTC without having to satisfy any additional jobs requirements (500 employees or $35 million in payroll). The company would still need to satisfy the JRTC's threshold for capital investment for administrative projects (which remains at $20 million over three years). For manufacturing projects, a company is no longer required to have 500 employees or $35 million in payroll to qualify for the JRTC. Instead, to qualify for the tax credit, a company with a manufacturing project must make or cause to be made payments over three years for capital investment at the project site of $50 million or 5% of net book value of all tangible personal property used at the project site (measured at the last day of the three-year period). A more detailed summary of the changes for the JRTC can be found here.
2. **Ohio Opportunity Zones (R.C. 122.84).** Investors in opportunity zones can now receive a tax credit equal to 10 percent of the taxpayer's investment into an Ohio qualified opportunity fund. To be eligible for this tax credit, the fund must hold 100 percent of its invested assets in a qualified opportunity zone property located in Ohio. This may encourage Ohio taxpayers to create Ohio-only funds to benefit from this incentive. Additional information on the Ohio opportunity zone tax credit can be found here.
3. **Motion Picture Tax Credit (R.C. 122.85).** The budget bill retained and amended the Motion Picture Tax Credit. The tax credit now covers not just motion pictures (which remains broadly defined) but also broadway theatrical productions. Eligible expenditures under the tax credit have been expanded to include "postproduction activities" or "advertising and promotion of the production." Production of the motion picture or broadway theatrical production must begin within 90 days of its certification as an eligible project unless the director of the Ohio Development Services Agency finds that the production company shows good cause for the delay. Also, the budget bill allows the tax credit to be claimed by both the production company (as in the past, when the production company was called the "motion picture company," although it is now required to be registered with the secretary of state) and each production contractor (e., contractors registered with the secretary of state, under contract with the production company, and providing specific services related to the production).
4. **Invest Ohio Tax Credit (R.C. 122.86).** The budget bill increased a key requirement to qualify for the Invest Ohio Tax Credit and reduced the overall amount of the tax credit available. A small business enterprise eligible for the tax credit must now meet the employment threshold of at least one employee "at the time of the qualifying investment and for the two year period immediately preceding the qualifying investment." In addition, the budget bill reduced the total amount of tax credits available from $100 million to $50 million for any biennium after July 1, 2019.
5. **Tax Increment Financing or TIF (R.C. 5709.40, 5709.41, 5709.51, 5709.73, and 5709.78).** The statutes governing Tax Increment Financing (the TIF statutes) have been amended in the budget bill to permit the legislative authority of a municipal corporation, board of township trustees, or board of county commissioners to amend a project/parcel-based TIF resolution or ordinance or an urban redevelopment TIF ordinance to extend the term of the TIF exemption for an additional period "not to exceed thirty" years beyond the period of the original exemption. To permit such an extension, all of the following conditions must be met: (i) the service payments made by the owner(s) of the TIF parcels must exceed $1.5 million in the calendar year immediately preceding the adoption of the amendment; (ii) for any amendments adopted after January 1, 2021, the service payments made by the owner(s) of the TIF parcels may not have

exceeded $1.5 million in any calendar year before the one immediately preceding the adoption of the amendment; and (iii) the amendment extending the exemption must provide compensation for the city, local, or exempted village school district in which the TIF parcel(s) are located equal in value to the amount of taxes that would have been payable to the school district if the improvements had not been exempted from taxation for the additional period.

July 31 2019

by Scott J. Ziance and Jonathan K. Stock

Vorys Sater Seymour and Pease LLP

Public Finance Watchdog Warns Illinois Taxpayers About Reports From Credit Rating Agencies.

A public finance watchdog said a recent credit rating outlook change for Illinois may be good for bondholders, but it's not necessarily good for taxpayers.

Fitch Ratings issued a report affirming Illinois' BBB rating, which is the worst of all states in the nation and nearing junk status. Fitch upgraded the state's outlook from "negative" to "stable."

Fitch analysts changed the state's outlook in part because of a windfall in tax revenue the state got unexpectedly in April "and the potential for a rating downgrade in the near-term has receded," according to the report.

Truth In Accounting Research Director Bill Bergman said taxpayers need to be cautious of such reports. Credit rating agencies are looking out for bondholders.

"And they want to get paid and that's why the credit rating agencies, if they see revenue increases, and those are tax increases, you almost have a conflict of interest between the bondholder and the taxpayer," he said.

Bergman said what's good for credit rating agencies, bondholders and the state's pensioners isn't always good for the taxpayers.

"Illinois historically has proven that any short-term fiscal stability has been abused with longer-term [policies], and in fact, we have more aggressive capital spending plans and other plans that are going to threaten us down the road," Bergman said.

Illinois lawmakers passed and Gov. J.B. Pritzker enacted a $45 billion, six-year infrastructure plan to be paid for with higher state taxes on gas, gambling expansion that has yet to be implemented and other tax and fee increases.

The Fitch report noted the state's rating will "continue to reflect an ongoing pattern of weak operating performance."

"The state's elevated long-term liability position remains a key credit challenge," the report said.

Bergman said Fitch and other rating agencies, as are taxpayers, still waiting on a Comprehensive Annual Financial Report to be published by the Illinois comptroller from a budget year that ended more than a year ago.

“Among other things, the state’s retiree healthcare benefit liability is going to show up for the first time on the balance sheet and that number could be massive and surprise us,” Bergman said.

Recent reporting standards have changed to require the inclusion of other post-employment benefits, or OPEBs, which Illinois’ retiree healthcare has been estimated by Truth In Accounting to cost more than $50 billion.

While Fitch and other rating agencies give Illinois’ credit a near-junk rating, Truth In Accounting gives Illinois a letter grade of F, driven by the state’s massive debt which includes $136 billion in unfunded pension liability.

By Greg Bishop | The Center Square

State Auditor: Serious Issues with Some Mississippi Agencies

A report from the state auditor shows several Mississippi agencies failed to meet requirements when it comes to spending public funds.

JACKSON, Miss. (WTVA) – A new report released by the State Auditor’s Office shows several Mississippi agencies failed to meet requirements when it comes to spending public funds.

“These audits represent months of difficult but important work by my finance and compliance audit division,” Auditor Shad White said. “This is a critical yearly report that, unfortunately, shows there are serious issues in some of our state agencies.”

The Fiscal Year 2018 Single Audit Report listed the Department of Human Services (DHS) and Mississippi Prison Industries Corporation among those not in compliance.

The report notes several findings with DHS, including:

- Did not certify whether multiple childcare centers met health and safety standards.
- Did not monitor recipients of several grants to determine whether grant money was spent in accordance with the law.
- Did not compile basic, required documents, like a comprehensive list of grant recipients.
- Did not follow federal reporting guidelines, submitting some federal paperwork nearly two years late.
- Did not follow all legal requirements for ensuring beneficiaries of large programs like Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and Child Care and Development Fund (CCDF) were actually eligible for the programs
- And did not or could not ensure childcare centers receiving CCDF funds accurately counted children in the centers.

Meanwhile, the reports show Mississippi Prison Industries Corporation, a non-profit created by the state to provide work programs for inmates, has experienced a staff shortage.

According to White, when too few employees have too much control over the finances of an office, the risk for fraud and theft increases.

"The taxpayers deserve to know that money is being spent appropriately, in accordance with the law, and that the proper safeguards to prevent fraud are in place," White said.

To see the full 300-page report, open this link here.

WTVA

by Emma Packard

Jul 23, 2019

Kentucky's New Pension Law Marks Unprecedented Reforms.

Critics say it could weaken the state's retirement system, which is already the worst-funded in the nation.

After several failed attempts and a special legislative session, Kentucky — the state with the worst-funded pension system — now has a plan to ease the financial burden that employees' retirements are taking on quasi-governmental agencies.

In signing the pension reform bill on Wednesday, Republican Gov. Matt Bevin said it provides "much needed financial relief" and "a viable path forward for our mental health agencies, rape crisis centers, local health departments and other community agencies."

But opponents of the new law warn that the controversial changes could worsen the state pension plan's already precarious finances.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JULY 25, 2019 AT 5:31 PM

Virgin Trains Seeks $3.6 Billion in Muni Bonds for California-to-Vegas Rail Line.

- **Florida company may be able to sell $3.6 billion of debt**
- **Private rail firm is seeking California, Nevada approval**

The company behind the nation's first privately-owned intercity passenger railway in more than a century is seeking approval from California and Nevada to raise as much as $3.6 billion in tax-exempt bonds for a high-speed train linking southern California to Las Vegas.

Virgin Trains USA Inc. is accelerating plans for a line connecting the Nevada gambling mecca to Victorville, a desert city 85 miles (137 kilometers) northeast of Los Angeles, after buying a company in March that had done the preliminary work for the project. In September, a California state agency could sign off on Virgin Trains' application that would result in it being able to borrow as much as $2.4 billion in unrated private activity bonds for the project. A Nevada agency in November will consider a similar request to let the company leverage as much as $1.2 billion in such debt.

The government agencies wouldn't be responsible for the bond payments but they would allow the Florida company access to cheaper capital for the $4.8 billion project. In April, Virgin Trains sold the biggest offering of unrated municipal securities in at least five years– $1.75 billion — to help fund the expansion of its currently unprofitable Florida system to tourist-rich Orlando from Miami.

"Similar to Florida, private activity bonds will be a component of our financing strategy, which will offer tremendous economic and environmental benefits," said Ben Porritt, a spokesman for the company owned by Fortress Investment Group private equity funds. "Through private investment, we will create thousands of new jobs, spark additional development and remove millions of cars off the road."

Porritt confirmed the company intends to borrow $2.4 billion if approved through California but didn't address plans for issuance through Nevada.

Hours-Long Drive

With a California bond sale eyed for the first quarter of 2020 and construction underway by June, trains could start running in 2023. That's ahead of estimates for California's oft-delayed bullet train project, which anticipates the first passengers traveling between localities in the state's agricultural region in 2028. Virgin Trains, which was known as Brightline before a marketing agreement with billionaire Richard Branson, expects a one-way trip to or from Las Vegas to take around 90 minutes and cost less than driving and parking as well as flying, according to an economic impact analysis by Beacon Economics LLC.

Drivers to Las Vegas from California can suffer multi-hour delays because of traffic and road conditions. Officials for years have pitched the idea of a fast transit connection. Virgin Trains plans to lay down tracks in the middle of the separated freeway lanes along Interstate 15 from Victorville near the Mojave Desert in San Bernardino County. The company expects the majority of riders will come from Los Angeles County, according to its application to California's Debt Limit Allocation Committee.

The company plans to acquire land for stations and rail facilities before getting reimbursed via the bonds issued in similar maturities to its Florida offering, which was for 5-, 7-, and 10-year terms, according to the California application.

California Treasurer Fiona Ma this week has been traveling on the Florida line with two staffers, learning about that system and talking to people along the way as part of her due diligence for the company's request, she said by phone. Community officials have told her about the train "transforming" the area by increasing jobs and reducing the reliance on cars, she said.

In a sign of how important Nevada considers this project, almost a third of its annual capacity for such debt would be designated for it this year and next, should a committee of government representatives approve.

Bloomberg Business

By Romy Varghese

July 26, 2019, 7:04 AM PDT

Fitch Ratings: University of Alaska Hit by Shrinking State Support of Higher Education

Fitch Ratings-Chicago-23 July 2019: An expected reduction of over 40% in state funding for the University of Alaska (UofAK) would represent a landmark development that highlights the ability of states to reduce support of higher education overall, a risk that Fitch Ratings believes public institutions are more exposed to than ever in an environment of increasing fixed costs in state government budgets.

UofAK's Board of Regents voted to declare financial exigency in preparation for the now necessary sizeable operating cuts to both staff and programs. Its accreditor (the Northwest Commission on Colleges and Universities) has further warned that its accreditation status may be in jeopardy due to the magnitude and implications of the cuts. Moreover, the longer-term impact to enrollment and research could be significant in a state already facing demographic pressures.

This reduction follows a 12% decline in state support in Alaska just two years prior. Colleges and universities overall are seeing state support become a less reliable source of revenue, but a reduction of over 40% from a state with historically stronger support of higher education would represent an unprecedented event that highlights the risks of state funding volatility. Alaska had historically been a strong supporter (on both a per capita and per $1000 in personal income basis) of higher education; only North Dakota and Wyoming outspent Alaska by those metrics in recent years. The magnitude of this reduction is equally extraordinary; in the past three years, the largest cuts to state support were Oklahoma (18% in 2017), North Dakota (15% in 2018) and Mississippi (11% in 2018).

Nationwide the trend has been more tempered; U.S. states have increased appropriations by 2% and 3.8% on average in the past two years, and appropriation revenue has represented a relatively stable proportion of total revenue at most institutions in recent years. Still, overall funding for higher education is not expected to return to pre-2008 levels for some time (if ever), increasing the importance of student fee revenue to replace it.

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Here’s Why Puerto Rico’s Next Governor Will Inherit a Financial Mess.

When Puerto Rico’s governor, Ricardo Rosselló, steps down on Aug. 2, his successor will be left with a mountain of unfinished business, including the biggest governmental bankruptcy in United States history and an economy propped up by emergency aid.

The island is about three years into a deeply unpopular restructuring of about $129 billion in debt and unfunded pensions, and there is still no clear resolution in sight. Over the years, the territory’s leaders borrowed $74 billion, largely to balance the budget, and exhausted all the money in the public pension system. The island owes retirees about $55 billion.

The bad fiscal habits have yet to be broken.

Continue reading.

The New York Times

By Mary Williams Walsh

July 25, 2019

California Cities Ask Newsom to Remove Hurdles for PG&E Assets.

- **Governor’s wildfire law complicates muni plans to buy assets**
- **Law creates ‘dangerous precedent’ for local autonomy: mayors**

A new California law, a win for Governor Gavin Newsom, is intended to help utilities cover wildfire liabilities. But it’s also impeding the efforts of cities such as San Francisco that are seeking power independence.

Now, they’re pressing Newsom to roll back the obstacles the law created before the state legislative session ends in September.

Newsom signed a bill July 12 that helps utilities cover mounting liabilities from wildfires, which led to PG&E Corp.’s bankruptcy in January. Cities such as San Francisco want to buy assets from the bankrupt electricity provider to control the power supply for their communities. An amendment inserted late in the legislative process makes those purchases more difficult by subjecting them to the approval of state regulators.

“We need to walk this back,” said State Senator Scott Wiener, who represents San Francisco and voted against the bill. “Cities should have the flexibility to create their own municipal utilities, and we shouldn’t stop them if that’s what a community wants to do.”

San Francisco earlier this year envisioned bidding for the PG&E electric assets within months, and other cities have also looked into acquisitions. The South San Joaquin Irrigation District, a water agency in the state’s agricultural region that tried to buy local PG&E poles and wires in 2006 and 2016, plans to make another offer as part of the bankruptcy.

PG&E Bankruptcy

They need timely action.

PG&E may file its bankruptcy plan as soon as next month, according to documents reviewed by Bloomberg. The company aims to exit bankruptcy protection early next year, and San Francisco and others may find bidding for parts of its distribution system is easier during that process. Plus, a group of creditors is pressing for the judge to consider a plan that would prevent any sale of assets to municipal governments for five years.

> **What Bloomberg Intelligence Says**
>
> "California's new wildfire legislation has cleared a path for PG&E to reorganize and exit bankruptcy. Yet that path has significant operational and restructuring obstacles and a tight deadline of June 30, 2020"
> Credit analyst Philip Brendel and litigation analyst Negisa Balluku

The legislation set up a fund that could be as large as $21 billion that power companies can tap to cover future fire liabilities. It also required more stringent safety standards. Credit-rating companies had warned that absent state action, utilities may be cut to junk, increasing their cost of capital and the risk of another energy crisis for California.

During the afternoon of July 5, the Friday before a key Monday committee hearing, provisions were added to expand the reach of the California Public Utilities Commission over municipalities attempting to buy PG&E assets. Also, the period that any new owner must maintain the number of employees was increased to three years from two.

'Clean-Up Bill'

Municipalities may have some hope. There may be a "clean-up bill" next month that could address their concerns, said Barry Moline, executive director of the California Municipal Utilities Association. A clarification that the intent was for the regulator to "review" rather than approve the impact on employees that could delay municipal plans would be a "good step," Moline said.

San Jose Mayor Sam Liccardo said in an interview that Newsom administration officials have assured his staffers that "they'll work with us on language that may fix this."

Nothing has been formally announced yet and the legislature is on recess until Aug. 12, leaving a month to pass new laws. A spokesman for PG&E said it doesn't comment on legislation yet to be introduced.

Nathan Click, a spokesman for Newsom, referred to the governor's comments at the July 12 signing in which he said more work will be done on the wildfire legislation. Newsom said later during the event that he didn't think "there's much of an issue" when asked about criticism that the law makes it more difficult to create public utilities. However, in April he characterized government takeovers as something "that drives shivers up people's spines" should PG&E continue to act poorly.

The amendments "set a dangerous precedent by limiting local government autonomy over its own employee relationships," according to letter dated July 8 from San Jose's Liccardo, San Francisco Mayor London Breed and Oakland Mayor Libby Schaaf to Newsom and legislative leaders.

Bloomberg Business

By Romy Varghese and David R Baker

July 18, 2019, 5:00 AM PDT

— With assistance by Mark Chediak

Could Public Banks Help California Fund Affordable Housing?

A coalition of bank activists in ten California cities is pushing for public banks. A bill to support them is working its way through the state legislature.

"We planted a seed," tweeted Public Banks L.A., the day the organization's ballot measure—which would have created the country's first city-led public banking institution—failed last year in Los Angeles. "This is just the beginning."

Turns out, they were right. After voters in L.A. rejected the measure that would have allowed the city to divest funds from Wall Street banks and create their own public banking institution at the local level, Public Bank L.A. converged with Public Bank San Francisco and coalitions in eight other California cities and regions to form a united public banking front. And now, a state assembly bill, AB 857, that would make it legal for each of these cities to open local banks, cosponsored by San Francisco Assembly member David Chiu and Los Angeles Assembly member Miguel Santiago, has advanced through the California Assembly and into Senate committees.

Continue reading.

CITYLAB

by SARAH HOLDER

JUL 17, 2019

New Financial State of Chicago.

Government finance and transparency watchdog Truth in Accounting (TIA) released its annual report today on the fiscal health of the City of Chicago. This year's report found that Chicago owes $34.4 billion, the majority of which can be attributed to unfunded retirement promises for municipal employees. TIA gathers its data from Chicago's audited Comprehensive Annual Financial Report (CAFR) and retirement plans' reports for the 2018 fiscal year and is the only organization that analyzes municipal finances on this scale.

Chicago's CAFR is due, according to state law, within six months of the fiscal year end. Chicago's fiscal year ends on December 31. As of July 1, 2019, the 2018 fiscal year CAFR was not publicly available. On July 5, 2019, the CAFR was made available on the city's website with a letter of transmittal backdated to June 28, 2019.

The level of Chicago's indebtedness assessed from the CAFR can be difficult to contextualize, which is why TIA calculates this number as a Taxpayer Burden™, or the amount of money each city taxpayer would have to contribute to city hall for the city to be debt free. Chicago's Taxpayer Burden is a staggering $38,100, which increased by $2,100 from the previous fiscal year largely due to increases in pension liabilities. And because Chicago Public Schools and the Chicago Transit Authority are separate entities, their debt is not included in this analysis.

These new findings are notable for several reasons. First, Truth in Accounting's rigorous methodology cuts through common bookkeeping gimmicks to present data free of political distortions. Second, this report allows the public to gauge financial health accurately and consistently going back several years.

"We found that Chicago's leaders have failed to address the structural problems weakening its financial system, instead plugging the holes with short-term fixes," said TIA founder and CEO Sheila Weinberg. "When the bills come due, Chicago politicians are going to face a lose-lose dilemma: reduce services and benefits, or fix the problem on the backs of future taxpayers."

Fiscal accountability in U.S. politics often focuses on highly visible federal budgets or the national debt. Truth in Accounting has repeatedly found that poor budgeting and accounting practices at the city and state levels of government presents equally alarming threats.

July 11, 2019

Las Vegas Monorail Pays Off Bonds, Plans Market Return.

- **Rail line wiped out 98% of its bonded debt in 2010 bankruptcy**
- **$20M deal that matures in 2049 is listed as day-to-day pricing**

Seven years after emerging from a Chapter 11 bankruptcy that wiped out 98% of bondholders' money, the Las Vegas Monorail is planning a return to the municipal-bond market.

The Las Vegas Monorail Co. has listed $19.75 million in unrated federally tax-exempt revenue bonds maturing in 2049 on the Bloomberg sale calendar. AnnMarie McDonald, a spokeswoman for Wells Fargo & Co., underwriter for the sale, confirmed the listing. The deal is listed as a day-to-day pricing, indicating it could come as early as next week, data compiled by Bloomberg show.

Record inflows of cash to municipal-bond mutual funds coupled with the drop in tax-exempt yields has helped fuel the number of deals in more default prone sectors. Such transactions should stay strong this year, according to Municipal Market Analytics Inc., which cited the heavy demand for state and local debt. These kind of offerings include transactions for recycling mills, proton cancer therapy facilities, and shopping centers, among other things.

Last Friday, Monorail spokeswoman Ingrid Reisman said in an email that the company had "put a new loan facility in place that allowed it to meet all of its obligations under the 2012 Series A and Series B Las Vegas Monorail bonds."

Those were exchanged with holders of $650 million in revenue bonds sold in 2000 to finance the takeover and expansion of the Monorail.

The $10 million in series A bonds carried a coupon of 5.50% and matured on Monday. The $3 million in series B bonds mature in 2055, also with a 5.50% coupon, but holders including Nuveen Asset Management and J.P. Morgan Securities LLC agreed to their redemption on July 5.

"We continue to work on elements of the financing for the expansion with our financial advisors and partners," Reisman said in an email without providing details on the project. "We intend to finance the expansion program as planned."

The Las Vegas monorail opened in 1995 as a privately financed venture running less than a mile between the back of the MGM Grand and the rear of Bally's casinos. There was no fare, and it carried around 13,000 riders daily. In 1997, the existing owners set up a nonprofit, public benefit corporation to acquire the franchise. In September of 2000, a state agency sold $650 million in tax-exempt bonds to finance the acquisition and expansion of the system. The bonds were secured by Monorail fare and advertising revenue.

The Monorail now runs almost four miles, and stops at six casinos and the city's convention center. Management had planned to expand service beyond the Strip out to McCarran International Airport. The consultant's report to the 2000 bonds by URS Greiner Woodward Clyde of New York predicted that 19.5 million people would use the Monorail by 2004, and this would rise to 23.6 million by 2035.

That level of ridership never materialized. In 2008, the company dipped into reserves to pay debt service, and in 2010, filed for Chapter 11 bankruptcy. The Monorail exited bankruptcy in 2012 after Judge Bruce A. Markell rejected a plan to reduce the bonded debt to $40.4 million and it was revised to $13 million. The judge characterized the Monorail as a "glaring example of nonsense on stilts."

In 2016, the Monorail carried 4.9 million riders and had farebox revenue of $21.5 million, according to publicly available financial statements. Reisman, the Monorail spokeswoman, didn't respond to request for more up-to-date information.

The original 2000 bonds included $451 million in first-tier bonds insured by Ambac Assurance Corp., whose holding company itself went bankrupt in November of 2010 because of its exposure to risky mortgage securities. This didn't extinguish the insurer's liability. Ambac refused to disclose how much investors eventually received.

Bloomberg Markets

By Joe Mysak

July 18, 2019, 2:12 PM PDT

— With assistance by Amanda Albright

Republican Ideas to Fund Michigan Road Repairs Taking Shape Over Summer.

One Republican idea to help counties and larger cities in Michigan pay for local road repairs: allowing them to levy their own gas taxes and vehicle registration fees.

The concept is among several floating around Lansing this summer as GOP legislative leaders say they continue to work on a plan to fix Michigan's crumbling roads and bridges — an estimated $2.5 billion problem for which a solution remains elusive.

Leaders of the GOP-led House and Senate have not shared specifics of the ideas they intend to propose as part of a road-funding plan to counter Democratic Gov. Gretchen Whitmer's proposed 45-

cent gas tax increase. The Legislature recessed for the summer in June without completing a 2020 budget or roads deal; the state's new fiscal year starts Oct. 1.

Republicans' central dilemma: how to raise the roughly $2.5 billion a year needed for road repairs while avoiding — or, at least, limiting — tax increases that are anathema to the party and much of its political base?

Continue reading.

Bridge

by Lindsay VanHulle

July 15, 2019

California Legislature Approves Multibillion-Dollar Wildfire Fund.

Addressing Wall Street fears, bill aims to help PG&E, other utilities, cover future liability costs

SACRAMENTO, Calif.—California lawmakers on Thursday approved a multibillion-dollar fund meant to stabilize the state's largest utilities amid fears of sizable future liability costs from deadly wildfires tied to their equipment.

The creation of the wildfire fund, one of the biggest challenges in the first year of Democratic Gov. Gavin Newsom's administration, is part of a broader regulatory overhaul meant to mitigate the crisis created when PG&E Corp. PCG -5.13% sought bankruptcy protection in January, citing more that $30 billion in potential liability costs stemming from its role in sparking wildfires.

The company's collapse sowed concern on Wall Street that the state's other large utilities, Edison International EIX 0.99% 's Southern California Edison and Sempra Energy SRE -0.36% 's San Diego Gas & Electric, may face similar fates. Credit-ratings firms threatened to downgrade them unless lawmakers moved to limit their liability exposure.

After concern among investors that lawmakers wouldn't pass the bill before beginning a month-long summer recess this Friday, a final version was hammered out late last week. It passed the state Senate Monday with a vote of 31-7 and the Assembly Thursday with a preliminary tally of 63 in favor and 9 opposed, winning bipartisan support in both houses. Mr. Newsom is expected to act quickly to sign the bill into law.

The legislation creates two routes for a wildfire fund—one valued at $10.5 billion and another at $21 billion or more. The smaller proposal would be structured as a revolving loan funded by extending a surcharge on electricity bills and securitizing the revenue through state-issued bonds. The larger would include an insurance policy requiring a $10.5 billion contribution from the three utilities.

Southern California Edison and San Diego Gas & Electric will have 15 days upon enactment of the bill into law to choose between the two options. They are likely to coalesce on one plan, said people close to the companies.

PG&E can't participate in the decision-making process while it restructures in bankruptcy court, but will be bound by what the other two companies choose. The other two utilities are widely expected to select the larger option, which would require PG&E to contribute the most money to the fund given the size of its service area.

An unusual state constitutional provision makes utilities responsible for property damages resulting from fires sparked by their equipment. The legislation would allow utilities to tap the wildfire fund to cover future claims arising from such fires if they were found to have acted responsibly.

Mr. Newsom's proposal was aimed at satisfying investor demands that the state partially reform utilities' exposure to wildfire risk, which has intensified in recent years with severe drought and climate change—while avoiding a bailout of PG&E. The state's largest power company has lost political goodwill in the wake of 19 wildfires state investigators have found its equipment caused in 2017 and 2018, including last year's Camp Fire, the deadliest in state history, which killed 85 people.

The new legislation does nothing to address PG&E's liability for past wildfires. The company last week pressed lawmakers to allow it to securitize future earnings to pay past wildfire claims, according to people familiar with the matter, but that provision wasn't included in the bill. Analysts expect lawmakers to consider that proposal later this session, given the amount of money PG&E will be required to contribute to the wildfire fund going forward.

Many longtime critics of PG&E's safety record, including consumer group The Utility Reform Network, supported the legislation, noting that it imposes new safety restrictions while limiting rate increases and corporate profits.

The wildfire fund will essentially spread future liabilities among the three utilities, making it easier for them to cover costs without raising rates for customers. To access the fund, a utility must obtain a safety certification from a new division of the California Public Utilities Commission that will be created to oversee wildfire safety efforts.

"Make no mistake—this is not a utility bailout, it is a ratepayer bailout," said Democratic State Sen. Bill Dodd, co-author of the bill.

But some critics argued the measure still fell short.

State Senator Scott Wiener, a Democrat from San Francisco, who voted against the bill, said the legislation would make it harder for cities to create their own utilities. San Francisco has been considering purchasing some of PG&E's assets and forming a municipal utility.

"This is a dramatic sea change in terms of our ability to try a new model," Mr. Wiener said at a Monday hearing. He was the only Democrat in the state Senate to buck his party and Mr. Newsom, the former mayor of San Francisco.

The Wall Street Journal

By Alejandro Lazo and Katherine Blunt

July 11, 2019 2:43 pm ET

California's Fix for Utility Crisis Depends on Munis, Again.

- **Municipal bonds key part of plan to prop up electric companies**
- **California sold munis in solution for earlier energy crisis**

While California's wildfire liability crisis can be seen clearly through the stock gyrations of the state's largest investor-owned electric utilities, it's the stolid municipal-bond market that stands to solve it. And it would be the second time that it's come to the aid of California.

A centerpiece of Governor Gavin Newsom's sweeping plan to help the companies cover the mounting costs from wildfires that their equipment keeps igniting is a fund seeded with $10.5 billion in municipal revenue bonds. The fund may expand from being used as a line of credit to a $21 billion insurance pool should the companies agree to make contributions.

Tapping municipal-bond investors is how California paid for its efforts to end rolling blackouts during the 2000-2001 energy crisis, sparked by a botched deregulation of electricity markets. It's also how Florida stopped insurers from leaving the state after Hurricane Andrew devastated coastal communities in 1992. Given the appetite for municipal bonds — a mainstay of retirement accounts that for the most part fails to draw headline-making trades — the strategy is likely to prove an effective one for the state when it's ready to sell the bonds.

"California taxpayers' thirst for supply right now is insatiable. The marketplace would be able to absorb it with no issues whatsoever," said David Alter, head of municipal bond research at Goldman Sachs Asset Management. "I don't think they'll do all $10.5 billion all at once, but in this environment, that wouldn't be a problem either, frankly."

Legislation passed Thursday seeks to address a multi-billion dollar problem that helped push the state's biggest utility, PG&E Corp., into bankruptcy in January: Wildfires are increasing in number and severity. And an unusual California doctrine holds utilities liable for wildfires that their equipment sparks, even if they aren't proven negligent, leaving officials worried about the reliability of power in the most-populous U.S. state. Just weeks into the fire season, utility lines are already sparking blazes.

Newsom's plan helps investor-owned utilities pay for future wildfire damages by setting up — at the minimum — a $10.5 billion fund to act as a line of credit. The state's Department of Water Resources would issue one or more series of the debt. It would be backed by extending a charge customers are already seeing on their bills from the $11.2 billion in bonds the state sold starting in 2002. That issuance reimbursed California from buying electricity for insolvent utilities hobbled by rising prices and manipulation by Enron Corp. and other companies in the deregulated market.

(Corporate bond investors may get a cut of the action if a utility that draws down on the line of credit gets permission to sell so-called recovery bonds. These deals would be backed by a different charge on ratepayers.)

Enough Yield

The bill explicitly notes that neither the faith and credit nor the taxing power of the state of California would be pledged to cover debt payments. While details have yet to be fleshed out, the legislation calls for investment-grade ratings.

Separately, PG&E is pushing lawmakers for legislation that would authorize a state entity to issue about $10 billion in tax-exempt bonds, with about $7 billion of the proceeds set aside for a $14 billion fund for claims from past wildfire victims. Another $3 billion would be earmarked for PG&E's

contributions to the statewide fund, according to people familiar with the matter.

The tax-exempt status would allow more capital to be raised more quickly, with the debt being securitized by diverting a portion of the company's earnings over the life of the bonds, the people said.

While the municipal market is different today than it was 20 years ago, one aspect is still true: Californians flock to tax-free income because of the state's high taxes on the wealthy. A 2002 sale of the bonds saw good demand, according to Bloomberg reports at the time. It's accentuated now because of the low supply of bonds, due to a variety of reasons, including the federal tax overhaul that also resulted in a cap of state and local deductions. Yields on bonds issued by the state and many local governments are in line or below those for top-rated debt.

Craig Brothers, a senior portfolio manager at Bel Air Investment Advisors in Los Angeles, said the fact that the issuance is to cover wildfire costs may give investors pause. Fires are an annual occurrence, while East Coast governments have issued bonds after hurricanes, discrete natural disasters, he said.

Still, he said, any debt, particularly those issued now in California, could draw buyers with enough compensation. "If they give enough yield, that may cause people to overlook the flaws of the concept," Brothers said. "They can probably tempt people to overlook strict credit analysis with yield."

Bloomberg Business

By Romy Varghese and Danielle Moran

July 11, 2019, 11:51 AM PDT

— With assistance by Mark Chediak and Scott Deveau

FCC Blocks Part of San Francisco's First-in-Nation Broadband Law.

The Federal Communications Commission voted to preempt part of a San Francisco city law that prevents property owners from denying internet service providers access to existing wiring within multiunit buildings.

The provision of the San Francisco law, known as Article 52, says property owners can't deny internet service providers access to wiring that's already in multiunit residential and commercial buildings. When the law was passed in December 2016, it was thought to be the first city ordinance of its kind in the nation, according to then-supervisor Mark Farrell.

FCC Chairman Ajit Pai has called the city's law an "outlier."

"To provide service, broadband providers must have access to potential customers in the building," Pai said. "But when they know that they will have to share the communications facilities that they install with their competitors, they're less likely to make the effort in the first place."

He added that an in-use wire sharing requirement wasn't consistent with federal policy of promoting "facilities-based competition as a means of encouraging broadband deployment and investment."

Commissioner Jessica Rosenworcel dissented.

“We should support efforts to allow Americans more broadband choices,” Rosenworcel said. “But today, the Federal Communications Commission says ‘not so fast.’ We stop efforts in California designed to encourage competition in apartment buildings. Specifically, we say … to the city of San Francisco, where more than half of the population rents housing in often multi-tenant units, we say you cannot encourage broadband competition. This is crazy. There’s so much wrong with this decision.”

The measure was approved by Pai and commissioners Michael O’Reilly and Brendan Carr. Commissioner Geoffrey Starks joined Rosenworcel in dissenting on the preemption of the San Francisco law, though he concurred on a broader FCC bid to reexamine broadband access in apartment buildings.

Mayor London Breed previously spoke out against the commission’s attempt to roll back the provision, saying in a letter sent last week to House Speaker Nancy Pelosi that the commission’s proposed order “would strip occupants of many (multi-tenant environments) in San Francisco of a meaningful choice of communications providers.” She added that the commission’s proposal mischaracterized Article 52, and that the provision did not require sharing of in-use wiring.

Breed’s office did not immediately respond to a request for comment on the vote.

Pai sharply criticized the city’s approach to the issue in the hearing.

“Throughout this proceeding, the city of San Francisco has failed to mount any defense whatsoever of requiring the sharing of in-use wiring,” Pai said. “Yet before I circulated this draft declaratory ruling to my colleagues three weeks ago, the city also refused to say that its ordinance didn’t mandate the sharing of in-use wiring. Indeed, it was only last week that the city finally stopped playing games and belatedly claimed that its ordinance ‘does not require sharing of in-use wiring.'”

Some lawmakers pushed back on the proposal before Wednesday’s vote. Rep. Katie Porter, D-Irvine, introduced a budget amendment that would prevent the commission from finalizing a draft rule that would overrule local laws that encourage broadband competition. The House of Representatives passed a group of amendments including Porter’s last week.

House Speaker Nancy Pelosi, D-San Francisco, sent a letter to the commission Wednesday morning, urging them to delay and reconsider the vote on the measure concerning San Francisco’s Article 52.

“This proposal is deeply misguided, and would undermine freedom of choice, increase costs and reduce service quality for residents, as it puts a chilling effect on much-needed competition in the telecommunications sector,” Pelosi wrote.

Pelosi said her office and San Francisco broadband user and tenant advocate organizations hadn’t received any complaints about in-use wiring. She also included a letter from San Francisco internet service provider Monkeybrains, which wrote to Pelosi’s office to oppose the commission’s attempt to preempt Article 52.

By Sophia Kunthara

BY TRIBUNE NEWS SERVICE | JULY 12, 2019 AT 8:42 AM

First Circuit Provides 'Guidance' on Challenging Puerto Rico's Debt Restructuring Statute: Nelson Mullins

At the very end of a recent opinion, the First Circuit seemingly provided guidance on how bondholders can attack the constitutionality of Puerto Rico's debt restricting act, PROMESA (The Puerto Rico Oversight, Management, and Economic Stability Act). However, the apparent guidance offered by the First Circuit may only be fool's gold.

PROMESA was adopted by Congress in 2016 in response to a Supreme Court ruling that Puerto Rico's instrumentalities were ineligible for municipal debt adjustment under chapter 9 of the United States Bankruptcy Code ("Bankruptcy Code"); PROMESA in turn provides statutory municipal debt provisions similar to chapter 9.

The First Circuit case began when guarantors of certain highway bonds filed suit in a special Puerto Rico District Court for PROMESA proceedings (the "PROMESA Court"), essentially challenging the constitutionality of PROMESA and attempting to undo the diversion of pledged oil and tax revenue that would have otherwise been paid to the highway bondholders. PROMESA allowed Puerto Rico to divert the pledged revenues to the payment of general obligation bonds if other revenue sources were insufficient to cover the general bonds. The PROMESA Court dismissed the bondholders' case, and the First Circuit affirmed.

The First Circuit first held that the constitutionality of PROMESA could not be attacked in the PROMESA Court. However, the First Circuit went on to state that the bondholders could attempt to obtain the same relief through two separate alternatives. First, they could seek relief from the automatic stay from the PROMESA Court under PROMESA provisions similar to Section 362 of the Bankruptcy Code, and then begin a separate proceeding in another court. Second, and similarly, they could initiate separate lawsuit in "regular" district court.

Legal scholars doubt that the bondholders would be successful under either alternative offered by the First Circuit, as the bondholders are not being deprived of their right to payment permanently, and therefore it's unlikely a court would find a violation of the bondholders' constitutional rights. Also, courts within the First Circuit have already rejected attempts by other bondholders to evade the requirements of PROMESA and obtain payment of diverted funds.

by Graham Mitchell

July 9 2019

Nelson Mullins Riley & Scarborough LLP

Puerto Rico's Bankruptcy Plan Is Almost Done, and It Could Start a Fight.

After three years of negotiations, Puerto Rico's federal overseers are at last finishing up a plan to complete the restructuring of the island's roughly $124 billion in debt. To resolve the biggest government financial collapse in United States history, they have had to untangle the island's thorny finances, negotiate with creditors and figure out how to do it without endangering the livelihoods of retirees who rely solely on their pensions.

That may have been the easy part.

Some of the island's creditors — including the hedge fund Aurelius Capital Management, which held up Argentina's debt settlement for years for a better deal — will almost certainly challenge the plan on the ground that it violates the territory's 1952 Constitution.

Continue reading.

The New York Times

By Mary Williams Walsh

July 14, 2019

New Michigan Initiative Looks to Change State Revenue Sharing.

ELKTON — Officials from the Michigan Municipal League were in the area this week to brief village officials of a program aimed at fixing what it says is Michigan's broken system for funding municipalities.

SaveMICity is an initiative started by the Michigan Municipal League (MML) to help communities understand and reform municipal finance at the state level.

Monica Galloway, MML member and ambassador of SaveMICity, said the MML is working in an effort to work with the state to talk about the broken financial structure. The group says the way the state has diverted dollars away from local services has cost Michigan's cities, villages and townships over $8 billion since 2002.

Continue reading.

The Huron Daily Tribune

by Seth Stapleton

July 13, 2019

Jaffray Will Soon Disappear From the Piper Jaffray Name.

The Piper Jaffray name has been a vital part of Minnesota business history for more than 100 years. But before that name emerged as one of the leading finance companies in Minneapolis, there was George Lane.

Lane formed George B. Lane, Commercial Paper & Collateral Loans & Co. in 1895 to help finance the growth of the Minneapolis milling and grain-elevator businesses.

In 1913, two Yale classmates, H.C. Piper and C. Palmer Jaffray, put their names to a new Minneapolis company, Piper Jaffray & Co., that also provided short-term debt known as commercial paper.

Four years later, the two companies combined to form Lane, Piper & Jaffray. In the 1920s, it expanded services beyond commercial paper to advise companies on mergers and raise public and private capital.

In 1932, it combined with another Minneapolis firm the Hopwood Investment Co., started in 1914 by the father and son team of F.P. and Robert Gaddis Hopwood.

As Piper Jaffray & Hopwood, the firm grew steadily through the next four decades.

In the late 1960s, Harry Piper Jr., son of H.C. Piper, became head of the growing company. Under Harry Piper's leadership, the company converted from a partnership to a corporation and in 1971 became the first regional brokerage firm to become publicly listed. His son, Addison Piper, succeeded him in 1983.

To fuel further growth, a holding company was formed in 1974 as simply Piper Jaffray Inc. In the early 1990s, the Hopwood name was dropped.

In 1998, Piper Jaffray was acquired by Minneapolis-based U.S. Bancorp for $730 million and became an operating subsidiary of that firm, known best for its main operating unit, U.S. Bank.

Five years later, U.S. Bancorp spun off Piper Jaffray as an independent public company.

After the spinoff and under the leadership of chairman and CEO Andrew Duff, who had succeeded Addison Piper, the company evolved through a series of acquisitions and divestitures into an investment-services company.

In January 2018, Chad Abraham succeed Duff as CEO. He became chairman last May.

By Patrick Kennedy Star Tribune JULY 9, 2019 — 7:50PM

[Fitch Downgrades Vermont's IDR to 'AA+'; Rates $125MM GOS 'AA+'; Outlook Stable]

Fitch Ratings-New York-10 July 2019: Fitch Ratings has assigned a 'AA+' rating to the following State of Vermont general obligation (GO) bonds:

–$84 million GO bonds, 2019 series A (competitive);
–$41 million GO refunding bonds, 2019 series B (Vermont Citizens Bonds) (negotiated).

The bonds are expected to sell the week of July 22, 2019; the series A bonds through competitive bid and the series B bonds through negotiated bid.

In addition, Fitch has downgraded the following ratings for the state of Vermont:

–Issuer Default Rating (IDR) to 'AA+' from 'AAA';
–Outstanding GO bonds to 'AA+' from 'AAA';
–Outstanding Vermont Municipal Bond Bank (VMBB) bonds issued under the 1988 general resolution rated by Fitch to 'AA-' from 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the state of Vermont backed by the state’s full faith and credit.

ANALYTICAL CONCLUSION

The downgrade of Vermont’s IDR and GO rating to ‘AA+’ from ‘AAA’ reflects Fitch’s lowered assessment of the state’s revenue framework, in particular, an expectation of slower growth prospects going forward. Fitch considers Vermont’s growth prospects to be more consistent with most of its New England peers, which generally face similar economic and demographic headwinds.

The ‘AA+’ IDR and GO rating also reflects conservative financial management, including prompt action to address projected budget gaps as they emerge, and maintenance of sound reserves. The moderate long-term liability burden, measured as a percentage of personal income, is above the states’ median but should remain relatively stable given Vermont’s close oversight and management of debt issuance, and policy changes to improve pension sustainability over time.

The downgrade of the rating on the Vermont Municipal Bond Bank’s 1988 General Resolution bonds to ‘AA-‘ from ‘AA’ is due to the linkage with the state’s IDR. The rating reflects the enhancement provided by Vermont’s moral obligation pledge. The two-notch distinction is warranted by the broad state purposes served by the bonds and the state’s involvement in the program as evidenced by the makeup of the board of directors (including the state treasurer and gubernatorial appointees) and a related state aid intercept provision.

Economic Resource Base
Vermont’s small and modestly growing economy has a larger-than-average reliance on health and educational services, manufacturing, and tourism and remains exposed to several key large employers. During the Great Recession, Vermont’s peak-to-trough monthly employment loss of 4.8% (seasonally adjusted levels) was less severe than the national 6.3% decline. But the state’s jobs recovery has trailed the national trend. Vermont’s population is older than most states and growth has been relatively limited. The state’s labor force has been flat to declining over the past decade, in contrast to slow growth at the national level. As with several other New England states, high educational attainment levels provide some potential for economic gains, but Vermont has not fully benefited from that potential to date.

KEY RATING DRIVERS

Revenue Framework: ‘aa’
Fitch anticipates Vermont’s revenues used for state operations will grow at a modest pace, consistent with our expectations for the state’s economy. Property taxes represent the largest component of state revenues and have grown at a robust rate, but these revenues do not drive the state’s overall revenue framework. Property tax revenues are essentially passed through to school districts, and are adjusted annually based on multiple factors including decisions of voters in those school districts. The state has complete legal control over its revenues.

Expenditure Framework: ‘aaa’
The state maintains ample expenditure flexibility with a low burden of carrying costs for liabilities and the broad expense-cutting ability common to most U.S. states. Vermont has been particularly focused on addressing healthcare spending, including Medicaid, which is a key expense driver.

Long-Term Liability Burden: ‘aa’
Vermont’s long-term liabilities burden is moderate and above the median for U.S. states.

Operating Performance: ‘aaa’
Fitch anticipates Vermont will utilize its broad gap-closing capacity to manage through economic downturns while maintaining a high level of fundamental financial flexibility. The state has taken steps during the expansion to expand its flexibility and position itself well for the next downturn.

RATING SENSITIVITIES

FISCAL MANAGEMENT: Vermont’s IDR is sensitive to the state’s demonstrated commitment to improving its fiscal resilience and carefully managing its long-term liability burden, particularly in the context of modest revenue growth expectations.

ECONOMIC GROWTH: The IDR is also sensitive to changes in the state’s fundamental economic growth trajectory. Material and sustained improvement in the state’s demographic profile, such as through consistent population and labor force gains, could support stronger revenue growth prospects and a more robust revenue framework assessment.

IDR LINKAGE: The rating on the Vermont Municipal Bond Bank’s 1998 General Resolution bonds is linked to the state’s IDR.

CREDIT PROFILE

Vermont’s population has been largely unchanged since the turn of the century, falling off the national trend of slow and steady growth. Since 2012 the state had actually been in a slight decline. But over the past two years, population and labor force declines leveled off. While the state’s unemployment rate is the lowest in New England and amongst the lowest nationally, labor force weakness has been the primary factor. Vermont’s government remains focused on addressing its demographic challenges with multiple policy efforts to enhance the state’s attractiveness for new residents and businesses including a grant program for remote workers relocating to Vermont. These efforts, along with economic improvement in the state, may have played a role in fostering the recent stabilization.

However, given Vermont’s small population of 626,299 as of July 2018 (second lowest amongst the states), even minor shifts in migration trends could again lead to population and workforce declines. Fitch considers the state’s economic growth trajectory modest and in the middle relative to its New England peers.

Revenue Framework
The state’s revenues used for direct state operations consist primarily of personal and corporate income taxes, sales and use taxes, and a meals and rooms tax meant to export a share of the tax burden to visiting tourists. Vermont also levies a state property tax for education, an unusual feature for state governments, which is the largest source of total state revenues. Since Vermont essentially passes through property tax collections to local school districts, Fitch discounts the importance of this stream in the revenue framework assessment. There are no legal limitations on the state’s ability to raise revenues.

Fitch anticipates limited growth in Vermont’s revenues, relatively in line with inflation, given the state’s modest economic growth prospects. Vermont’s historical total tax revenue growth, adjusted for policy changes, has been slightly negative on a real basis over the past decade, which includes an extended multi-year decline during the Great Recession. Recent Fitch analyses of states’ economic trends and likely trajectories (A Visualization of Demographic Strength and Stability Trends, July 2018 and U.S. States and the Growth Implications of an Aging Population, October 2018) illustrate some of the state’s ongoing and anticipated constraints on economic and revenue growth.

Vermont has no legal limitations on its ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

Expenditure Framework

Education is the state’s largest expenditure from own-source revenues, driven by the unique funding system in Vermont with the state covering the full cost for locally administered K-12 schools primarily through the property tax, and the sales and use tax. Health and human services, primarily Medicaid, is the second-largest expenditure area.

Spending growth, absent policy actions, will likely be slightly ahead of revenue growth, driven primarily by Medicaid, requiring regular budget measures to ensure ongoing balance. The fiscal challenge of Medicaid is common to all U.S. states, and the nature of the program as well as federal government rules limit the states’ options in managing the pace of spending growth. Federal action to revise Medicaid’s programmatic and financial structure appears less likely in the near term given divided control in Congress.

Vermont has been particularly aggressive in addressing the long-term national trend of steadily rising healthcare costs (including Medicaid), with the most recent effort being a shift towards outcome-based care under an ‘all-payer’ system, rather than the traditional fee-for-service model. Under terms of agreements with the federal government for the all-payer system, Vermont is transitioning Medicare and Medicaid to an outcome-based accountable care organization model, with the goal of getting participation from private insurers and providers as well over the program’s initial five-year period. The state began an initial all-payer pilot program with Medicaid patients in January 2017.

MEDICAID SPENDING LEVELLING OUT

Healthcare spending in recent years has leveled off with the state reporting that actual expenditures for the Agency for Human Services (AHS, responsible for Medicaid in the state) and acute care spending specifically are seeing either declines or essentially no growth since fiscal 2016. The state also reports that Medicaid enrollment declined sharply in this period (by 21% between fiscals 2016 and 2019), a trend seen by many other states as well given the ongoing economic expansion, and a key factor in slower Medicaid spending growth. Between fiscal years 2003 and 2016 AHS spending increased at nearly 6% annually. Fitch notes Vermont’s change in spending trajectory has been particularly sharp, even relative to other states seeing enrollment declines, which may reflect benefits of the policy efforts such as the all-payer model.

EDUCATION FUNDING CHANGES

For education, state spending growth pressure is somewhat offset by the funding structure as school districts’ homestead property tax rates (collected by localities on behalf of the state) increase when voter-approved school district budgets increase. Revenue growth does not fully mitigate spending increases though, exposing the state to a level of ongoing expenditure growth which had been reflected in the steadily growing annual state general fund appropriation to the education fund.

In 2018, the legislature revised funding mechanisms and replaced the general fund appropriations with full dedication of the state’s sales and use tax and a portion of the meals and rooms tax to the education fund and away from the general fund beginning in fiscal 2019.

LAKE CHAMPLAIN CLEANUP COSTS

Following a June 2016 agreement between the EPA and the state to address pollution issues in Lake Champlain, Vermont’s legislature enacted legislation (S.96) this year in an effort to address a federal requirement to establish an ongoing source of funding for cleanup efforts. S. 96 dedicates 6% of the meals and room tax (MRT) collections to a clean water fund, which in combination with other allocated revenues the state estimates will have $50 million available in fiscal 2020. The EPA is reviewing the legislation and will make a final determination on whether it addresses the requirement.

Fitch notes that the MRT allocation to the clean water fund modestly reduces the share for the general fund; in fiscal 2020 the shift will cost $7.5 million and will grow to an estimated $10 million – $11 million in fiscal 2021. These amounts are very small relative to estimated general fund tax revenues that exceed $1.2 billion in both years, but they will require offsetting growth from existing general fund revenues, enactment of new revenue sources, or matching expenditure cuts. For fiscal 2020, the state anticipates recent upticks in general fund revenue performance discussed further below will cover the $7.5 million allocation.

Vermont's fixed carrying cost burden is low and Fitch anticipates it will remain stable given the state's commitment to at least full actuarial contributions to its pension systems and careful management of debt issuance. The state has regularly contributed in excess of actuarially determined amounts for pensions in an effort to manage and reduce the net pension liabilities. Overall, the state retains ample flexibility to adjust main expenditure items.

Long-Term Liability Burden
On a combined basis, Vermont's debt and net pension liabilities as of Fitch's 2018 state pension update report ("2018 State Pension Update", dated November 2018) totaled 11.9% of 2017 personal income, compared with a statewide median of 6.0%. Based on the most recently available data, Fitch calculates a long-term liability burden of 11.5%. This ratio includes special obligation transportation infrastructure bonds (TIBs) supported by a dedicated share of Vermont's gasoline and diesel taxes. Fitch notes that Vermont considers the TIBs as self-supporting from the dedicated tax revenues as part of its legal and policy calculations for tax-supported debt.

Debt levels remain modest at just 2% and are closely monitored through the state's Capital Debt Affordability Advisory Committee (CDAAC). The governor and legislature consistently stay within CDAAC's recommendations for annual bond issuance.

Net pension liabilities are more significant with Fitch-adjusted net pension liabilities representing approximately 10% of personal income. The pension liability calculations include essentially 100% of the liability in the Vermont State Retirement System and the State Teachers' Retirement System, for which the state makes the full actuarial contribution. Market losses during the last two recessions contributed to recent growth in net liabilities for both systems.

Since the Great Recession the state has negotiated with employee groups and implemented multiple changes including to benefits, contributions, and actuarial methods to improve pension sustainability over time. Given recent shifts to somewhat more conservative actuarial assumptions, including a decrease in the investment return assumption to 7.5% from 7.95%, Fitch anticipates Vermont's long-term liability burden will remain consistent with a 'aa' assessment over the long term.

OPEB liabilities are also significant with the reported 2018 net OPEB liability equal to approximately 7% of the state's personal income. Fitch notes positively that the state has taken some modest steps towards pre-funding OPEB liabilities and has also made some progress in reducing liabilities through collective bargaining with unions. The state has also benefitted from recent favorable health care claims experience.

Operating Performance
Vermont's exceptionally strong gap-closing capacity derives from institutional and statutory mechanisms, and a demonstrated ability to prudently manage through economic downturns. Official

revenue forecasts are updated at minimum twice a year through the Emergency Board, a consensus process involving the administration and legislature. During the Great Recession, the state moved to quarterly updates to enhance its ability to respond to rapidly changing fiscal circumstances.

The governor can implement a spending reduction plan unilaterally (if a revenue forecast lowers revenues less than one percent from the prior forecast), or with approval of the legislature's Joint Fiscal Committee (a bipartisan and bicameral committee of legislative fiscal leaders) for larger forecast revenue shortfalls. During the Great Recession, and again in a more recent shortfall, the governor, legislature, and other key stakeholders including employee unions, worked quickly to develop spending rescission plans to address emerging deficits. The state's recent trend has been to focus on expenditure cuts, such as negotiated wage reductions or programmatic cuts, rather than revenue increases.

Vermont maintains multiple budget reserves including fully-funded budget stabilization reserves (5% of prior year appropriations) in each of its three primary operating funds (general, education and transportation), and separate, fund-specific reserves or unreserved balances of lesser amounts. At fiscal year-end 2018, the various general fund reserves totaled $133 million, representing approximately 9% of total general fund uses. Education fund reserves of $79 million were approximately 5% of total education fund uses. On a combined basis, total general and education fund reserves at the end of fiscal 2018 of $212 million covered approximately 7% of total general and education fund uses. Fitch considers the transportation fund, reliant primarily on dedicated fuel and motor vehicle related taxes as relatively distinct from the general and education fund. As detailed below, Fitch anticipates general fund reserves will increase in the near-term, providing further financial resilience.

The state's budgeting practices tend to be conservative in forecasting and proactive through the fiscal year, with most fiscal years ending with at least a modest general fund budget surplus despite the lack of a statutory or constitutional balanced budget requirement. Through the economic expansion Vermont has maintained its primary budget reserves. Recently, the state has taken steps to build in additional fiscal capacity through additional reserves including the general fund balance reserve (established in 2012 to replace the revenue shortfall reserve), a human services caseload reserve (established in 2017 and primarily for Medicaid), and a 27/53 reserve (established in 2016 to address years with a 27th biweekly payroll or a 53rd week of Medicaid disbursements).

CURRENT DEVELOPMENTS
Based on the January 2019 emergency board forecast and mid-year budget adjustments under the 2019 Budget Adjustment Act (BAA), Vermont projects a sizable increase to general fund reserves for the year that just ended on June 30. Under this current law scenario, the state estimates total general fund reserves will increase to approximately $209 million, or 13% of total general fund uses as of June 30, 2019. Education fund reserves are on track to remain stable while combined general and education fund reserves are projected to total roughly $278 million or 9% of total general and education fund uses.

These projected general fund reserve gains largely reflect transfers of funds from the Global Commitment Waiver fund, totaling nearly $80 million at the end of fiscal 2018, to the general fund in fiscal 2019. The funds will be reserved in the general fund's human services caseload reserve and 27/53 reserve, which are both related to Medicaid which the Global Commitment Waiver Fund was also intended to support. Excluding those specific reserves, the current law forecast indicates the broader general fund budget stabilization and general fund balance reserves will remain relatively stable at $94 million, or 6% of total general fund uses as of June 30, 2019.

Robust revenue performance in the second half of fiscal 2019 has improved the revenue outlook and the administration now estimates a roughly $50 million general fund surplus will result in a $15 million contribution to the general fund balance reserve, leading to a combined budget stabilization and balance reserve total of $109 million, or 7% of total general fund uses.

General fund revenue for fiscal 2019 is tracking ahead of the January 2019 estimate by approximately $50 million, or 4%, through May, and 6% up over the prior year. These estimates adjust both years for the full allocation of the sales and use tax (SUT) to the education fund as of fiscal 2019. Personal income tax (PIT) and corporate income tax (CIT) have been particularly strong, up $43 million and $11 million respectively from forecast, and 5% and 43% respectively from the prior year. PIT also increased sharply in fiscal 2018, up 10% over 2017.

In developing its revenue forecasts, the emergency board noted that, as in many other states, effects of the December 2017 federal tax changes (commonly referred to as the Tax Cuts and Jobs Act, or TCJA) heavily influenced PIT and CIT collections in 2018 and 2019. The next emergency board forecast due by the end of July will assess what portion of the 2019 PIT and CIT increases are sustainable and recurring. While economic performance in the state remains positive, Fitch anticipates the bulk of the above-forecast PIT and CIT revenue performance in fiscal 2019 was one-time or otherwise short-lived. SUT collections, now captured solely in the education fund, are up just under 4% for the year through May, essentially in line with the January 2019 forecast implying economic growth has been largely within expectations.

In addition to the anticipated $15 million contribution to the general fund balance reserve, the state anticipates allocating approximately $9.4 million of the estimated fiscal 2019 surplus as carry-forward resources for fiscal 2020 and $25 million to the state employees OPEB trust fund. In fiscal 2019, the state used a portion of the surplus revenue to help fully retire an interfund loan to the teachers OPEB trust fund ahead of schedule, and set the state up for pre-funding in future years.

FISCAL 2020 BUDGET OVERVIEW

Vermont enacted its fiscal 2020 budget in mid-June when the Governor signed H. 542 into law. The tone of budget negotiations differed considerably from last year. Last June, a dispute over the governor’s push to use surplus revenues to keep state property tax rates flat versus legislator’s push for competing priorities including pay down of teachers’ pension system liabilities led to two gubernatorial vetoes and just a day before the start of the new fiscal year, the governor allowed the legislature’s budget to become effective without signing or vetoing it.

For fiscal 2020 the budget uses a portion of undesignated education fund reserves to limit state property tax rate increases, while maintaining a modest $5 million cushion beyond the $38 million education fund budget stabilization reserve. The education fund enacted budget also reflects a bill passed by the legislature to expand SUT provisions to online marketplace facilitators, building off last year’s U.S. Supreme Court Wayfair decision, to generate an estimated $13.4 million in new revenue. The current estimate calls for robust nearly 7% growth in the SUT in fiscal 2020 based on the new law.

In the general fund, the enacted budget includes only modest tax code changes including a medical expense deduction for the PIT ($2 million loss to the general fund) and a new limit on the capital gains exclusion ($2 million gain). As noted, to address Lake Champlain cleanup efforts, the budget also dedicates a modest portion of the meals and rooms tax (MRT, and roughly $8 million) to the clean water fund, away from the general fund. The MRT diversion requires sustaining a portion of the anticipated revenue surplus in fiscal 2019 into fiscal 2020 to backfill the re-allocated tax revenue. The dedicated portion of the MRT will grow to $10 million-$11 million annually in future years, according to the administration.

The enacted budget also permanently shifts recognition of nearly $300 million in State Health Care Resources Fund (SHCRF) revenues to the general fund. The change, first implemented in the fiscal 2019 BAA, is essentially an accounting change.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Additional information is available on www.fitchratings.com

Mastercard, Mercator Advisory and NASACT Release Report on New York Payment Operations.

Click to view the report, State of Payments: Study of the Payments of the State of New York – Project Findings.

Federal Government Demands Part of Oklahoma's $270M Opioid Settlement.

The federal government is seeking a portion of Oklahoma's $270 million settlement with opioid maker Purdue Pharma.

In a June 12 letter to Oklahoma's Medicaid director, an official from the U.S. Centers for Medicare and Medicaid wrote that he was aware of the state's landmark settlement with the maker of OxyContin and "the federal government is entitled to a portion of that amount."

In the two-page letter, Bill Brooks, the director of Centers for Medicaid and CHIP Services, does not specify how much of the $270 million settlement the state might owe to the federal government.

He did, however, ask Oklahoma Medicaid Director Becky Pasternik-Ikard to respond with an explanation of what the state believes to be Medicaid's portion of the settlement.

Gov. Kevin Stitt hinted Thursday he disagrees with the idea that Oklahoma owes part of the settlement funds to the federal government.

"We're aware of that letter," he said. "We're talking to our counsel about it. We obviously disagree and we'll be making further comments."

Stitt declined to elaborate on what exactly he disagrees with, saying he will hold off commenting further to avoid say anything that could hurt the state's position in ongoing litigation against opioid manufacturers.

Brooks also asked for a wide swath of documents, including those that show the amount of Medicaid funds expended to purchase opioids in any way associated with the settlement, to treat Medicaid recipients for substance use disorder caused by opioids and related to the settlement and to pay for diversion programs in conjunction with the settlement.

Also requested was the 20 years of Medicaid claims data that Oklahoma used to "help determine the amount of damages" to claim in the lawsuit. The Oklahoma Health Care Authority provided the data to Attorney General Mike Hunter's office.

When Hunter initially filed the lawsuit against opioid manufacturers, he accused them of creating a public nuisance, fraud, unjust enrichment and violating Oklahoma's Medicaid False Claims Act, Medicaid Program Integrity Act and Consumer Protection Act.

The letter from the federal government specifically cites the Medicaid False Claims Act and Medicaid Program Integrity Act. Typically, when states are awarded funds in Medicaid fraud cases, they reimburse the federal government for its share.

Hunter said he's unconcerned about the letter.

"I've got a lot of things I'm worried about, but this is not one of them," he said.

Hunter spokesman Alex Gerszewski elaborated, saying this will not affect state revenue.

The letter also includes a stiff warning that the federal government could withhold future Medicaid payments if Oklahoma officials do not return its share of the settlement.

The state could have a problem paying the federal government because none of the $270 million in settlement funds went into state coffers.

The settlement stipulates $200 million, or the bulk of the settlement, must go toward establishing a national center for addiction treatment at the Oklahoma State University Center for Wellness and Recovery in Tulsa. The remainder will go to local governments or will be used to pay legal fees.

In light of the letter from CMS, Stitt said it could be a good thing that Hunter structured the settlement so that the money went to a nonprofit instead of the state treasury.

"I think this actually helps us in this case because that settlement money was sent to a national center for opioid research," he said. "In this case, that is probably to our benefit because the state did not receive that money."

Stitt did not speculate on where the money would come from if the state does end up owing a portion of the settlement funds to CMS.

The unusual settlement rankled state lawmakers, who then passed a law requiring settlement funds to go into the state treasury.

Cleveland County District Judge Thad Balkman recently settled a squabble Stitt and prominent lawmakers had with the attorney general's office over what to do with an $85 million windfall from the state's settlement with drugmaker Teva Pharmaceuticals.

It's unclear if the federal government feels it is owed a portion of that settlement, the bulk of which went into a special fund in the state treasury.

The letter may also pave the way for the federal government to try to claim a portion of what, if any, windfall may come from the ongoing opioid trial against drugmaker Johnson & Johnson.

Johnson & Johnson has been accused of creating a public nuisance that helped cause the opioid epidemic through false and misleading marketing efforts that downplayed the addictive and overdose risks of opioids.

The state is not going after the company on complaints of violating Oklahoma's Medicaid False Claims Act or Medicaid Program Integrity Act, which could reduce the federal government's claim to any windfall that may result from the trial.

Brooks requested the state respond by July 12, but Pasternik-Ikard requested a 90-day extension giving state officials until Oct. 12 to respond.

By Carmen Forman

BY TRIBUNE NEWS SERVICE | JULY 1, 2019 AT 7:46 AM

['Drag This Out as Long as Possible': Former Official Faces Rare Criminal Charges Under Open-Records Law]

ATLANTA — When he was mayor of Atlanta, Kasim Reed's relationship with the news media was notoriously contentious.

He was the kind of politician who punched back when he felt punched. He was well known for blocking reporters on Twitter, and his office regularly criticized journalists by name and issued news releases that vigorously pushed back against negative coverage.

Once, at a February 2017 news conference, Mr. Reed responded to reporters' requests for records by simultaneously releasing more than 1.4 million pages of documents on paper, stuffed into more than 400 boxes, some of them filled with blank sheets and minuscule spreadsheet printouts — a gesture interpreted by many in the local press corps as a dramatic act of nose-thumbing.

Continue reading.

The New York Times

By Richard Fausset

July 8, 2019

S&P Extra Credit Podcast: All Things Texas

Lisa Schroeer talks with Texas experts Andy Hobbs, Josh Travis and Oscar Padilla. Hear about recent legislation and the impact on locals and school districts, and get a state overview.

Listen to Audio

Jul. 1, 2019

S&P Charter School Brief: Nevada

As of June 28, 2019, S&P Global Ratings maintains eight public ratings on Nevada charter schools and charter networks. Nevada legislature first approved the state's charter school law in 1997. An estimated 52,300 students were enrolled in 48 Nevada charter schools during the 2018-2019 school year and the Nevada State Public Charter School Authority has reported plans to increase that number to 60,

Continue Reading

Jun. 28, 2019

New Michigan Road-Funding Scheme: Issue $10B in Teacher Pension Debt to Free Up Cash.

The latest idea to fix Michigan's crumbling roads is to float $10 billion in bonds to pay down the state's long-term liability for school employee pensions, freeing up $1 billion in the state's School Aid Fund that's currently diverted from classrooms to pensions.

Then, the newfound savings there would allow lawmakers to remove the sales tax on gasoline without impacting school funding, and raise the per-gallon gas tax by the same amount the sales tax generated — roughly 16 cents on a gallon of $2.65 gas — so that the price at the pump doesn't noticeably increase for motorists.

Some of Michigan's most powerful businessmen came up with this scheme.

What could go wrong?

Continue reading.

Crain's Detroit Business

by Chad Livengood

July 07, 2019

California 'Public Banks' Legislation Could Upend Local Government Finance, Backers Say.

Should banks exist to make a profit, a difference, or both?

A bill in the California Legislature allowing municipalities to create their own banks could upend how they handle their money and finance long-term projects. It also has the potential to squeeze out larger financial institutions, replacing them with these so-called "public banks."

The legislation, Assembly Bill 857, could also have a resounding impact on the North Bay.

Cities and counties could combine to found a bank that would replace larger institutions in underwriting "participation loans" made to projects in partnership with local banks and credit unions, according to Susan Harman of the Public Bank East Bay advocacy group, part of the statewide California Public Bank Alliance.

Continue reading.

by CHASE DIFELICIANTONIO

NORTH BAY BUSINESS JOURNAL | June 27, 2019, 9:23AM

Philadelphia City Controller's Office Identifies Significant Financial Errors.

A report released by the Office of the Controller has found significant weaknesses in Philadelphia's internal control over its financial reporting.

"Weakness in internal controls are important because they indicate a higher likelihood that fraud could occur," City Controller Rebecca Rhynhart said during a press conference held Wednesday at the Municipal Services Building.

"Internal controls are financial safeguards designed to protect taxpayer money from management and fraud. The findings in this audit are red flags for potentially serious issues with the city's finances. They are warning signs that the city is putting your tax dollars at risk."

Rhynhart called for Mayor Jim Kenney and the finance director to address these issues with urgency.

Continue reading.

by Ayana Jones Tribune Staff Writer Jun 26, 2019

[The Far-Reaching Effects if Puerto Rico Snubs Precedent and the Rule of Law.]

'Oversight Board ignores U.S. Supreme Court precedent, dating back to the 19th century'

Editor's note: The following is a commentary by Dominic Frederico, CEO of bond insurer Assured Guaranty.

The current Financial Oversight and Management Board for Puerto Rico (Oversight Board) is attempting to invalidate more than $6 billion of general obligation bonds and to initiate clawbacks of principal and interest payments to bondholders. It claims that the bonds were issued in excess of a Puerto Rico constitutional debt limit, notwithstanding the Commonwealth's specific representations to the contrary when the bonds were issued. In taking these actions, the Oversight Board ignores U.S. Supreme Court precedent, dating back to the 19th century, that if an issuer specifically represents the validity of its bonds to investors at the time of issuance, it is barred from later denying repayment based on a claim of invalidity. The actions also violate the basic tenets of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which the U.S. Congress enacted in June 2016 to provide a formal process for Puerto Rico's debt restructuring, restoration of its capital market access and to provide supervision of its financial management by the Oversight Board.

Dubious legal assertions aside, how does trying to repudiate previous debt issued and approved by the duly authorized Puerto Rico government help to restore its capital markets access? This illustrates how far the current Oversight Board has strayed from the purpose of PROMESA.

The Oversight Board has initiated multiple lawsuits not just against bondholders to invalidate liens, but also against hundreds of vendors and contractors who worked for the Puerto Rico Government, in an attempt to claw back billions in payments. In fact, it has allocated $1.5 billion of Puerto Rico taxpayers' money towards litigation and consultant fees.

Rather than continue to deny valid legal obligations, invalidate lawful liens, and ignore decades of municipal finance custom and practice, the Oversight Board should join with other parties to work in good faith to end costly adversarial legal proceedings. If Puerto Rico does not emerge from Title III bankruptcy proceeding soon and instead remains mired in decades of litigation, it will hurt Puerto Rico's economy and its residents. This will also raise borrowing costs for local and state governments across the U.S. as concern about contagion from Puerto Rico's unresolved debt crisis spreads.

On February 15, 2019, the U.S. Court of Appeals for the First Circuit held that PROMESA's procedure for appointing Oversight Board members is unconstitutional. The appeals court allowed 90 days for President Trump and the Senate to appoint and confirm a new board or reappoint some or all of the current board, later extending the deadline to July 15. The U.S. Supreme Court has agreed to hear arguments as to the constitutionality of the Oversight Board appointments later this year.

This First Circuit decision creates an opportunity for a newly reappointed board to fulfill PROMESA's stated goals for Puerto Rico: achieving fiscal responsibility and regaining access to the capital markets. By improving transparency and fiscal governance, and by promoting consensual agreements between creditors and the government, the Oversight Board can create the conditions for swiftly resolving the debt restructuring process, achieving long-term economic growth and restoring the capital markets access that is critical for a vibrant economic future for Puerto Rico and the modernization of its infrastructure.

Restoring the Commonwealth’s credit access through adherence to the rule of law is essential for ensuring that municipal bond investors, U.S. municipal officials, U.S. taxpayers – and all Americans who benefit from lower-cost financing for the construction of utilities, hospitals, bridges, schools and other public works – have confidence that even in tough situations, the laws governing the municipal bond markets function as they should.

Caribbean Business

June 26, 2019

—The views expressed in the Opinion section are the writers’ own and not necessarily the view of Caribbean Business.

California Law Shedding Light on Public Bond Costs May Die Next Year.

- **State senator seeks rollback of disclosure law passed in 2017**
- **Law requires ballot question to include tax increase estimate**

Is too much public disclosure about municipal-bond elections a bad thing?

About a year after a new California law mandated that ballots disclose the fiscal impact of local bond and various tax measures, legislators are seeking to roll it back. Democratic state senator Scott Wiener‘s bill would remove that requirement for bond measures proposed by schools and other municipalities, as well as for those that affect certain taxes.

That’s a setback for Republican assemblyman Jay Obernolte, who had pushed for the disclosure that took effect in 2018. He said voters should have all the information when they read the ballot questions — not just in voluminous election guides they may not review.

“It seems to me like the proponents only want to tell people all the good things that would be done with that money,” said Obernolte, whose party is in the minority in the legislature. “They don’t want to be transparent about the fact that it is a tax increase and will actually result in higher taxes.”

The way Wiener sees it, municipal boards already face challenges raising money, such as needing two-thirds approval for bonds slated for particular purposes. Trying to explain the fiscal impact in 75 words, the limit of a ballot question, creates confusion, may cause more measures to lose and makes it virtually impossible for tiered parcel taxes to pass, he said. His measure would delegate the description to the guide or another separate document.

“I believe strongly that we need to give local communities more tools to fund basic services,” said Wiener, who noted that the word limit is a third of that for Twitter. “These laws are setting local governments up for failure.”

The battle to win voters is particularly acute in California, where the Progressive-era initiative laws are frequently invoked to force citizens to weigh in on a wide range of issues, including agricultural policies such as the proper way to house hens. Voter guides issued by counties can easily run more than 100 pages.

Opponents of the disclosure law, such as school boards, wanted the details of the fiscal impact to remain solely in the guides, arguing that they have sufficient space for context.

Wiener's bill wasn't introduced at the start of the session. Instead, the language for the rollback replaced text of a different topic in one of his bills that had already moved through much of the legislative process, a technique known as "gut and amend." The practice would help improve the chances of a speedy adoption before the session adjourns in September, though it irks groups promoting good government.

Obernolte said he's willing to work with advocates to address their concerns, such as the fact that the amount raised by proposed taxes could vary over time.

"I certainly don't think that those things warrant taking the voter out of the loop when it comes to transparency," he said.

Bloomberg Business

By Romy Varghese

June 24, 2019, 9:13 AM PDT

[Illinois Comptroller Lashes Out Over Late budgetary Post-Mortem from 2018.]

"Illinois is, by far, the last state in the nation to release its CAFR and has only released it as late as July in 2009, when now-deputy governor Dan Hynes released Fiscal Year 2007's report on July 10. … According to the Chicago Tribune, two folders were taken from Burke's office in a federal raid that concerned Brian Hynes, the founder of the program and a longtime ally of House Speaker Michael Madigan."

Read the full article on: [The Center Square]

Cole Lauterbach | June 27, 2019

[Michigan GOP's $1B Road Repair Idea: Pension Bonds.]

"A conservative business group this week pitched Michigan Republican legislative leaders on a debt swap idea it says could free up nearly $1 billion annually to fix the state's crumbling roads without raising taxes. … The idea hinges on the assumption — a risky one, critics say — that the pension system would invest that $10 billion influx of cash and secure large enough returns to both pay down any remaining pension debt and cover the cost of bond interest payments."

Read the full article on: [The Detroit News]

Jonathan Oosting | July 1, 2019

[The Nuclear Option: Clearwater Condo Owners Push Back Against Bond Debt.]

A community development district has gone to federal bankruptcy court over the $1,100-per-year assessments that condo owners pay to retire bonds that critics contend didn't bring anything of value.

CLEARWATER — On sunny days, the Grand Venezia at Baywatch condominiums offer a view of Old Tampa Bay that calms the mind.

"It's just gorgeous," resident Don Dwyer said recently. "One morning I sat on my balcony for two hours. I saw five manatees, 12 dolphins and I can't tell you how many stingrays."

But the history of Grand Venezia is anything but fun or soothing. Instead, it's complicated and contentious, with twists that just keep coming, starting with the two con men now serving 40 years in prison for running a nationwide Ponzi scheme.

Along the way, they talked about turning the Grand Venezia, which is east of U.S. 19 near Belleair Road and Clearwater's southern boundary, into a 5-star resort with a water park, canals with gondoliers, a hotel, spa, convention facilities and shopping to rival Rodeo Drive.

Continue reading.

The Tampa Bay Times

By Richard Danielson

[Fitch Ratings: Texas HB3 Boosts State K-12 Funding, Reduces Local Tax Rates]

Fitch Ratings-Austin-19 June 2019: The recent increase in state aid to Texas school districts will provide a short-term boost to district revenue growth, but Fitch Ratings is concerned about the sustainability of the higher funding level over time. Fitch does not expect the funding changes to trigger immediate rating changes for Texas school districts.

Texas Governor Gregg Abbott last week signed into law House Bill 3 (HB3), which materially boosts state K-12 funding for the next biennium and shifts more of the funding responsibility to the state from local tax bases, reducing somewhat funding and operational pressures on local school districts. However, if the funding increase is not sustained following this biennium it could be disruptive to districts as they work the increased funding into new or enhanced programs.

Unless state aid continues to grow over time from the now elevated base it is unlikely to affect Fitch's assessment of long-term revenue growth prospects, a component of Fitch's U.S. Public Finance Tax-Supported Rating Criteria. The additional funding also has the potential to bolster local districts' operating profiles, a development that will vary by district and will likewise depend on the sustainability of the increased funding levels. Operating performance for the vast majority of Fitch-rated Texas school districts is already assessed at 'aaa', so sustained improvement would have the potential to affect only a few ratings.

HB3 provides for an $11.6 billion (roughly 20%) increase in K-12 funding. The increase includes $6.5 billion in additional aid for educational programs, primarily through an increase in the per student basic allotment to $6,160 from $5,140 previously (also a 20% increase). The bill requires districts to apply 30% of annual increased funding to full-time employee compensation increases (75% of which would go to teachers, counselors, nurses and librarians).

The increased funding also includes $5.1 billion to lower local school district property tax rates. For the vast majority of districts, maintenance and operations (M&O) tax rates will be compressed from $1.04 per $100 of taxable assessed valuation (TAV) to roughly $0.97 in 2020, the first year of implementation. It also requires districts to limit annual operating tax revenue increases to 2.5% (by requiring a reduction in the M&O rate if TAV increases by more than 2.5%), beginning in 2021. These tax rate-related changes will not affect Fitch's current assessment of Texas districts' legal ability to increase revenues, which is uniformly at the 'bb' level given their inability to increase M&O tax rates without voter approval. The legislation also revises the equalization formula, the goal of which has been to reduce the calculated wealth level of property-wealthy school districts to an equalized level; most districts accomplish this by either paying property tax revenues to the state or directly to less wealthy districts (recapture). The formula change is expected to reduce recapture payments made by property-wealthy districts by $1.6 billion in fiscal 2020 and $1.9 billion in fiscal 2021.

The boost in state aid under HB3 allows for a number of changes and reforms to the Texas K-12 educational system. These changes include full day pre-K for eligible children, increased funding for low-income student education, incentives for districts to offer dual language programs, and money for districts to develop merit pay programs for teachers.

Separate legislation (Senate Bill 12) increases state, district and employee contributions to the Teachers Retirement System of Texas (TRS), a state-sponsored pension plan. State contributions are increasing from 6.8% of salary currently to 8.25% by 2024, employee contributions are increasing from 7.7% currently to 8.25% by 2024, and district contributions will ramp up from 1.5% currently to 2.0% by 2025 (increasing .1% annually). The contribution increases are expected to keep the scheduled amortization of the plan at around 31 years, consistent with the projected amortization period that was in place prior to TRS board action in July 2018 that reduced the assumed investment/discount rated from 8.0% to 7.25%; this change increased the unfunded liability of $35 billion by $10 billion and extended the amortization period to 86 years. Fitch has previously noted the possibility of increased district contributions to TRS, but believes the increase from 1.5% of salary to 2.0% should not apply material pressure to districts' operations–particularly in light of the boost in basic allotment funding. However, additional increases of any magnitude could alter our assessment of this district obligation.

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New California Debt Financing Guide for Public Agencies: Orrick

The California Debt and Investment Advisory Commission (CDIAC), in partnership with Orrick's Public Finance Group, recently published its California Debt Financing Guide (the "Guide"). The Guide offers an approach to understanding the responsibilities and obligations of issuers and the elected and appointed officials who are ultimately responsible for the use of debt financing by their agency. It also provides a comprehensive discussion of the legal and statutory requirements for debt issuance while employing a framework that supports the deliberative process issuers undertake before, during, and after issuing debt.

The Guide is produced in an interactive, electronic format that can be accessed here.

Orrick

Public Finance Alert | June.13.2019

The Lingering, Unresolved Battle Over Short-Term Rentals in One California City.

Almost a year after San Diego first passed restrictions on rentals marketed on Airbnb and other platforms, only to rescind them months later, the issue is still unsettled. Now, it has moved to the state Legislature.

In San Diego, like other California cities, affordable homes are in scarce supply, with some in the city placing part of the blame on the abundance of short-term vacation rentals marketed on websites like Airbnb. After a decade-long debate over how to regulate vacation rentals, the San Diego City Council passed a sweeping new ordinance last July. Supporters of vacation rentals—a longstanding sector for this coastal community—called the law a de-facto ban, but similar ordinances later followed in Los Angeles and Washington, DC. The law's backers heralded it as a major success—and then it wasn't.

Just four months later, the San Diego City Council voted 8-1 to repeal the ordinance that the same council members had passed, in response to a successful petition to put the law on the 2020 ballot, delaying it until voters could weigh in. At the moment, the fight has moved to the state Legislature, where a bill would limit platforms advertising vacation rentals to 30 days a year for residentially-zoned properties in the coastal zone. The measure would only apply to San Diego county. The State

Assembly passed the bill in late May and it is now before the State Senate, although its prospects there remain uncertain as some lawmakers say they are hesitant about preempting local governments with state-level legislation.

It's worth asking how the vacation rental issue became so intractable. It wasn't bogged down in partisan gridlock—members of both parties have found themselves on both sides of the issue. While dysfunctional government has sometimes been a problem for San Diego, this doesn't appear to fit into that trend. State Assembly member and mayoral candidate Todd Gloria, a Democrat, coined the term "San Diego special" for a situation in which "obvious solutions to long-running problems die for lack of vision, leadership, and action." But the Airbnb battles don't look like a San Diego Special: there was no shortage of legislative proposals, and lawmakers came together to take action (and then undo it).

Continue reading.

Route Fifty

By David Hervey

JUNE 21, 2019

Florida Zoning Appeals Law: Miami-Dade County Special Exception Denial Quashed .

In the recent decision of Publix Supermarkets, Inc., v. Miami-Dade County, Case No. 17-082 AP, the 11th Judicial Circuit Court in and for Miami-Dade County held: (i) the applicant successfully carried its burden in a quasi-judicial hearing before the zoning appeals board of Miami-Dade County (the "County"); and, (ii) that the opposition failed to establish the required "competent, substantial evidence" to deny the application. Thus, the circuit court granted the applicant's Petition for Writ of Certiorari, quashed the resolution that denied the application, and remanded the case to the zoning appeals board.

Publix Supermarkets, Inc., ("Publix") applied for a special exception to permit a liquor store less than 1,500 feet from an existing liquor store pursuant to Section 33-311(A)(3) of the Miami-Dade County Code of Ordinances (the "Code") and a non-use variance to permit alcohol sales on Sundays pursuant to Section 33-311(A)(4)(b) of the Code.

Importantly, the County staff recommended approval of the special exception and the non-use variance with conditions limiting alcohol sales to certain hours and requiring that Publix obtain a certificate of use.

At the public hearing, both the attorney for and owner of T-Rexx Liquor Store ("T-Rexx"), a competing liquor store, spoke against the application. The attorney submitted a petition signed by 705 individuals opposing the application and argued that if the application was approved, T-Rexx's business would be damaged and likely close.

On appeal, the circuit court was charged with determining: (1) whether procedural due process was provided; (2) whether the essential requirements of law were observed; and, (3) whether the administrative findings and judgments were supported by competent substantial evidence, in accordance with City of Deerfield Beach v. Vaillant, 419 So. 2d 624 (Fla. 1982); Florida Power &

Light Co. v. City of Dania, 761 So. 2d 1089 (Fla. 2000).

Publix argued that once it successfully demonstrated compliance with Code requirements, the burden then shifted to require T-Rexx "to present competent, substantial evidence that the criteria were not actually met or that the proposed liquor store was actually adverse to public interests."

In reaching its decision, the circuit court turned to Jesus Fellowship, Inc. v. Miami-Dade County, 752 So. 2d 708, (Fla. 3d DCA 2000), in which the Third District Court of Appeal held:

"An applicant seeking special exceptions and unusual uses need only demonstrate to the decision-making body that its proposal is consistent with the county's land use plan; that the uses are specifically authorized as special exceptions and unusual uses in the applicable zoning district; and that the requests meet with the applicable zoning code standards of review. If this is accomplished, then the application must be granted unless the opposition carries its burden, which is to demonstrate that the applicant's requests do not meet the standards and are in fact adverse to the public interest."

Ultimately, the circuit court determined that the submittal of a petition in opposition to the project and the project's potential negative impact on a competing business in the neighborhood were not sufficient to establish the standard of substantial competent evidence required to defeat the application. Accordingly, the court granted Publix's Petition for Writ of Certiorari, quashed the resolution denying Publix's application, and remanded the matter to the zoning appeals board.

As this case demonstrates, applicants should be apprised of their rights and what burden they must carry when seeking a special exception or unusual use, or any other relief, at a public hearing. It is critical to recognize that for special exceptions and unusual uses, once the applicant meets its burden of proof, that burden then shifts to the opposition to demonstrate that the applicant's requests do not meet the standards and are in fact adverse to the public interest. This case provides another example of the need to seek redress from the court to overturn an improper municipal ruling that impinges private property rights.

Anthony De Yurre and Jennifer E. Fine

June 20 2019

Bilzin Sumberg

Why Are Residents Leaving Illinois in Droves?

It's known here as The Exodus.

People are leaving Illinois in droves. Republicans blame the state's high taxes and its unfunded pension liability, which tops $130 billion. Democrats believe it's the state's lack of investment in education and infrastructure.

One thing is certain: Illinois' population has declined by 157,000 residents over the past five years, making it one of only two states — West Virginia is the other — to lose people over the past decade.

Illinois' predicament is a perfect storm of declining manufacturing, stagnant immigration, declining birth rates, young people leaving for college and never coming back, long-standing economic discrimination against black residents, high housing costs, and the continued draw of residents to the Sun Belt.

What's happening in the Prairie State may offer national lessons about the deindustrialized economy and how that creates inequity issues in wages and housing, said Matthew Wilson, a senior research specialist at the University of Illinois at Chicago's Great Cities Institute.

For a Rust Belt state to thrive, Wilson said, officials have to focus on retaining and growing its manufacturing sector by training workers, providing affordable housing and attracting new businesses. Building up the manufacturing sector has to go hand in hand with attracting high-paying jobs, he said.

Illinois has struggled with all of that.

A 2016 poll by Southern Illinois University found that nearly half of Illinois residents wanted to move to another state, citing taxes, weather, ineffective and corrupt local government and a lack of middle-class jobs. A March poll from the university found that two-thirds of Illinois residents think the state is going in the wrong direction.

Between 2017 and 2018, 114,000 more residents left Illinois than moved in from other states. Those who left mostly moved to Florida, Texas and Indiana, IRS data shows.

Chicago's population has dropped slightly, largely because black residents are leaving for areas with lower housing costs and more jobs that don't require higher education. In downstate Illinois, the population loss has come largely from a decrease in manufacturing jobs.

Tale of Two Cities

Nearly 15 miles south of the famed Magnificent Mile in the booming downtown Loop is another stretch of Chicago's Michigan Avenue. Up until the 1980s, this part of the Roseland neighborhood was "the place to be" for black residents, lined with stores and restaurants. But many of those are gone now, leaving only the boarded-up facades and a distant memory.

As Abraham Lacy drove down the street earlier this month, the new father and Chicago resident described the "heart-wrenching" state of the area since its decline began 50 years ago.

This was a manufacturing hub. But those jobs are gone. Nearly 28% of the population lives below the poverty level, according to the U.S. Census Bureau.

"There's no hope," he said. "It brings me to tears. Here we are in the third-largest city in the country."

Lacy is the executive director of the Far South Community Development Corporation, a nonprofit that brings commercial investments from public and private partnerships to local low-income, majority-black neighborhoods like Morgan Park, West Pullman and Roseland to alleviate poverty.

Since peaking in 1980 at nearly 1.2 million people, the black population of Chicago has dropped by more than 400,000 people, and the trend continues. Black residents are leaving Chicago for the suburbs and for neighboring states such as Indiana, Iowa and Wisconsin.

Some are reversing the Great Migration of the first half of the 20th century, returning to Southern cities including Atlanta, Dallas and Houston, said Pete Saunders, an urban planning consultant based in the Chicago area who has written extensively on this issue.

“They just feel frozen out of opportunity,” he said. “They feel Chicago is a closed system. They can’t get ahead here. It’s designed for others to get ahead.”

Chicago is still attracting educated people seeking jobs in law, finance and tech, and many neighborhoods of the city are thriving. But there’s a growing divide between high-paying jobs and low-wage, “dead-end” work, with not many jobs in between, said David Wilson, a geography professor at the University of Illinois at Urbana-Champaign.

Real estate development is booming along Lake Michigan and in the Loop. Gentrification, he said, “is spreading its tentacles across the city,” including the traditionally poorer South Side and West Side. In other parts of the city, including Roseland, residents lacking economic opportunity are leaving.

“There’s something wrong here,” said Jawanza Malone, executive director of the Kenwood Oakland Community Organization, a South Side grassroots group currently leading a rent control campaign “to stem the tide of displacement.”

Chicago is among a handful of metropolises that are losing their black residents, including Los Angeles, San Diego and San Jose.

The high rate of black residents leaving is the main cause for Chicago’s stagnant population, and the drain could get worse, several fair housing advocates and urban demographers said.

More than a third of young adults want to leave Chicago, a January survey from the University of Chicago’s GenForward Project found. Participants, especially African Americans, said the biggest reason for wanting out was racism and how that affects policing, job opportunities and neighborhood development.

Chicago’s new African American mayor, Lori Lightfoot, seems keenly aware of this challenge, calling it “the proverbial canary in the mine shaft” when asked in April about the city’s population decline by the Chicago Tribune.

“We’ve got to create real opportunities and incentives for businesses and for all neighborhoods to prosper,” she added.

Chicago’s population is staying afloat because of a continued influx of Asian immigrants. The number of Chicago-region residents born in Asia has increased by 60,000 since 2010, while the number of Chicago-region residents born in Latin America has decreased by 18,000, according to a Chicago Metropolitan Agency for Planning analysis of U.S. Census Bureau data.

While some traditionally Mexican Chicago neighborhoods like Pilsen have been hit by gentrification pressures, Chinatown and other neighborhoods south of the downtown Loop have generally been shielded, said David Wu, executive director of Pui Tak Center, a church-based community center next to the Chinatown gate.

After the 2020 census, the city will have its first majority-Chinese ward, Wu said. The area in 2017 elected Democrat Theresa Mah, the Illinois General Assembly’s first Chinese American member.

“These neighborhoods are defined by an ethnic identity,” he said, sitting in the neighborhood’s new public library, where half of the books are in Chinese. “Whereas other communities are defined by socioeconomic class.”

President Donald Trump’s strict immigration policy might halt this growth, however. In an attempt to keep some of this immigrant base in Illinois, state lawmakers last month passed a bill that offers financial aid to undocumented immigrants attending public colleges or universities.

But development in the South Loop is spreading south and could make Chinatown and other Asian American enclaves less affordable.

Keeping Manufacturing

Vincent Flaska wanted to expand his forklift manufacturing business in 2015. He could have either kept Hoist Liftruck in Illinois, where the company was based since 1994, or moved it just over the Indiana border to East Chicago.

He chose Indiana.

“The environment that has been created in Illinois is not supportive of those blue-collar jobs,” he said.

With the move, Flaska saved $1.75 million annually on workers compensation insurance and an additional $1.5 million on state taxes — on top of the $15 million in financial incentives from Indiana. The company is now closer to the steel mills it relies on. Some of his workers bought their first homes after the company relocated.

The move “was a no-brainer,” he said. Earlier this year, Flaska’s business was acquired by Toyota Industries North America — a move, he said, that couldn’t have happened if it was still in Illinois.

There has been “chronic and concentrated joblessness in manufacturing” in Illinois, said Teresa Córdova, director of the Great Cities Institute. Because of changes to rural and manufacturing jobs in the state, working-age people are having a harder time finding work in downstate communities, she said.

Four out of five counties statewide, many anchored by manufacturing, are losing population.

As manufacturing has steadily declined in the Rust Belt over recent decades, states have scrambled to keep businesses from going overseas or to other places within the United States.

For states such as Indiana, that means promoting its lower tax rates and offering special tax incentives, like it did for Hoist Liftruck. For Illinois, that means promoting its workforce and logistical hub of Chicago.

But Moody’s found that Illinois manufacturers will face “daunting competition,” as companies look to lower-cost areas to keep competitive. The decline in manufacturing in Illinois, the report said, “will prevail.”

Manufacturing is responsible for 592,000 jobs in the state, according to the Illinois Manufacturers Association. From 2001 to 2016, the state lost 30% of its manufacturing jobs, according to a Chicago Metropolitan Agency for Planning analysis.

Lake County, just north of Chicago along the Wisconsin border, is one of many in Illinois that have lost population in recent years. But leaders there have concentrated on retaining and growing pharmaceutical and advanced life sciences manufacturing sectors, said Kevin Considine, the president and CEO of Lake County Partners, a public- and privately funded business development corporation.

“I won’t kid you,” he said. “You drive through southeast Wisconsin and you see a lot of brands that were Illinois companies.

“I’m not saying that nobody is moving, but I think we’re doing a pretty good job over the last four years at making the case at why companies should grow here instead of move.”

While neighboring states such as Wisconsin and Indiana have “been very good at playing the incentive game,” attracting businesses with tax incentives and infrastructure grants, Considine said the skilled workforce in Illinois “is far and away our greatest strength.”

But in order to keep that workforce competitive, the state must retain educated young people, encouraging them to pursue careers in biochemistry or welding, he said. Waukegan is one of three cities in the country to offer an advanced manufacturing curriculum for high school students, training 200 skilled technicians a year.

The reality, however, is that Illinois has a brain drain problem.

Nearly half of Illinois college-bound public high school students chose to go to out-of-state universities and colleges in 2017, according to a March analysis by the Illinois Board of Higher Education. In 2002, that number was under 30%. Indiana, Iowa and Wisconsin continue to take in more college students than they lose, U.S. Department of Education data show.

When young people go out of state for college, they are less likely to return home after graduation, said Nyle Robinson, the board’s interim executive director. This is especially concerning for the rural, downstate regions that have been losing residents.

Illinois ranks second nationally in losing college students to other states, topped only by New Jersey, according to the U.S. Education Department. “It’s certainly concerning,” Robinson said.

Robinson especially cites the education funding cuts that came from the 2015-2017 budget impasse in Illinois as a contributing factor to this outmigration of young people. Both high- and low-income students are leaving the state, he said.

Robinson was encouraged to see the Illinois legislature this month approve $1.9 billion for the University of Illinois System — the largest funding increase in nearly two decades. The funds are designated for new buildings, renovations and other capital investments. Democratic Gov. J.B. Pritzker signed the budget.

Some neighboring states have tried to take advantage of some of the political turmoil in Illinois and negative press around high taxes and population loss.

Speros Batistatos, the president and CEO of the South Shore Convention & Visitors Authority, helped launch a digital campaign to lure Illinoisans to move to Northwest Indiana, targeting young families and empty nesters with the promise of fewer taxes and an easy commute to Chicago.

“We’re not trying to bash our friends next door,” he said. “We’re just trying to be a competitive suburb of Chicago.”

The campaign seems to be working. Peter Novak, the CEO of the Greater Northwest Indiana Association of Realtors, said, “Builders can’t build homes fast enough.”

By Matt Vasilogambros

STATELINE | JUNE 19, 2019 AT 8:39 AM

Puerto Rico Debt Plan Leaves Investors With a Choice: Lose Money or Fight

If a plan to restructure $35 billion of Puerto Rico's bonds is approved, investors who own nearly $6.3 billion of debt will have a tough choice: Taking a haircut, or spending time and money on litigation against the Commonwealth.

The plan, released Sunday, is the result of three months of negotiations between the federal board overseeing Puerto Rico's bankruptcy and investors who hold about $3 billion of its bonds. The board expects to file the plan with the bankruptcy court within 30 days.

If creditors and the judge approve the plan, it would reduce the cost of the island's debt by 46% over the next three decades, including the cost of servicing its sales-tax bonds.

Continue reading.

Barron's

By Alexandra Scaggs

June 17, 2019

Executive Director of Puerto Rico's Oversight Board Defends Proposed Restructuring Deal.

KEY POINTS

- The agreement is on the framework for the plan of adjustment and would slash the amount of Commonwealth related bonds outstanding by more than 60% to less than $12 billion.
- "I believe this is part of a process and you have to begin somewhere and you have to reach an agreement with some group, which we've done with the groups that were announced yesterday," Natalie Jaresko told CNBC. "And now that it's become public, we are very eager, willing to continue these discussions with all the other groups of creditors as well as the bond insurers."

The executive director of Puerto Rico's Oversight Board is standing by the restructuring agreement that it reached with a portion of bondholders to address $35 billion of Puerto Rico's debt, despite the island's government and a key creditor saying they will not sign on to the deal.

The agreement, which was unveiled late on Sunday, is on the framework for the plan of adjustment and would slash the amount of Commonwealth related bonds outstanding by more than 60% to less than $12 billion.

"I believe this is part of a process and you have to begin somewhere and you have to reach an agreement with some group, which we've done with the groups that were announced yesterday," Natalie Jaresko told CNBC's Leslie Picker in an exclusive interview. "And now that it's become public, we are very eager, willing to continue these discussions with all the other groups of creditors as well as the bond insurers," Jaresko said.

The Plan Support Agreement has the support of creditors who hold approximately $3 billion in total of the island's constitutionally guaranteed claims. However, the government of Puerto Rico and

Assured Guaranty, a monoline insurer that has $1.5 billion of net par exposure to the bonds covered in the proposed deal, have rejected the deal.

"This 'deal,' backed by barely 10 percent of Commonwealth guaranteed and GO creditors, who bought positions at prices substantially below par, failed to include the largest general obligation creditors who have supported Puerto Rico for decades, and is a disservice to the residents and long term stakeholders of the island," Assured Guaranty said in a written statement provided to CNBC.

When asked about this point, Jaresko said "I don't think we should look at it as 90% of them not signing on, in the sense that there are different classes and different interests and you have to look at each class individually." Jaresko, who was appointed executive director of the Oversight Board in March 2017, continued by saying the group of bondholders that have signed on to the proposed deal account for "a significant amount" and believes that making the deal public last night will help build further creditor support.

Almost immediately following the release of the proposed deal, the government of Puerto Rico issued a statement rejecting the deal, citing the administration's strong opposition to any cuts to retiree's benefits.

"The government of Puerto Rico seems determined to not support this agreement though this agreement provides for sustainable, affordable debt and secures pensions," Jaresko said. "They seem to be determined regardless of whether it's in the interest of the Commonwealth or not….this agreement focuses and assures the single most important thing that current and future administrations do not undermine again the financial stability of the pension system."

Assured Guaranty also stated that the company could not support "an agreement that would prolong expensive litigation, while harming Puerto Rico's long-term economic success and the national municipal bond market."

Jaresko, who is anticipating the plans of adjustment to be filed within thirty days, does note that the proposed terms of the plan of adjustment are not set in stone and says, "there can be amendments going forward."

"There's still quite a bit of room to work with bondholders here to bring in additional classes, and to reach an even more consensual agreement," Jaresko said.

Assured Guaranty says that the company "continues to encourage the start of negotiations among Puerto Rico's most important stakeholders," but warns the Oversight Board that it is prepared "to litigate this to the fullest extent to protect our rights, those of municipal bond investors, and the rule of law."

"I look forward to working with the other groups of creditors to bring this to a close as soon as possible," Jaresko said.

CNBC.COM

by Dawn Giel & Leslie Picker

JUN 17 2019

[New York Mall's $300 Million Muni Bonds Cut to Junk by Moody's.]

- **Destiny USA gets loan extension but may not meet covenants**
- **Mall has limited competition but online shopping taking toll**

Syracuse, New York's Destiny USA, one of the largest malls in the U.S., had the ratings on about $300 million of municipal bonds cut to junk by Moody's Investors Service, which said shrinking profits may hinder its ability to meet the terms of a real estate loan.

Moody's cut the rating on the mall-backed debt sold through a city development agency from Baa3 to Ba2, two steps below investment grade, and assigned a negative outlook, indicating the securities may be downgraded further.

Destiny USA, owned by Pyramid Cos., issued bonds backed by payments in lieu of taxes by the developer in 2007 to expand its Carousel Center mall into a super-regional shopping and entertainment complex. The company refinanced the debt in 2016. Pyramid owns 15 malls, including the Palisades Center in Rockland County outside New York City

A 19-screen move theater, go-kart raceway and a comedy club haven't been enough to stem the pressure from online shopping and the sluggish upstate New York economy. The 2.4 million square-foot mall was able to avert default on a subordinate commercial mortgage backed security on May 31 by extending and modifying the loan. However, the mall's ability to meet covenants to secure the second and third years of the extension remains uncertain, Moody's said.

"While the loan extension provides time to execute the proposed business plan that has tangible agreements and other likely new tenants in the pipeline over the next few years, Carousel Mall will likely remain challenged to grow margins to meet an annually rising debt service repayment schedule," Moody's said.

Under Siege

"We are comfortable with the terms of the Wells Fargo extension and continue to have a strong outlook on Destiny USA.," Stephen Congel, chief executive officer of Pyramid, said in an emailed statement. "We were surprised with the rating action taken by Moody's and disagree with their assessment considering the positive outlook and overall performance of the property. This does in no way change our plan, approach or commitment to ensuring the health and longevity of the center for decades to come."

Destiny is among scores of malls besieged by the rise of online shopping and retailer bankruptcies. A Bloomberg index of regional-mall owners has declined about 5% this year compared with a 18% gain for all real estate investment trusts. Bloomberg's U.S. mall REIT index has declined 30% over the last three years.

The population of Onondaga County, home to Syracuse, is about the same as it was in 1990 and its 4.7% annual average unemployment rate in 2018 is higher than New York's 4.1%.

Destiny USA, which attracted 26 million visitors last year, benefits from limited competition in the Syracuse region and its ability to attract visitors from all over Central New York. In addition, Pyramid has a strong incentive to make payments backing the bonds because failure to do so could lead to foreclosure.

Moody's expects the bonds to be paid on time and bondholders should expect full recovery in the case of default. However, the bonds are still at risk in a bankruptcy, the rating company said.

Bloomberg Business

By Martin Z Braun

June 13, 2019, 9:32 AM PDT Updated on June 13, 2019, 12:02 PM PDT

Fitch Webinar: Texas SB2 May Impact Local Government Ratings - Now Available On Demand

June 13, 2019 and 3:00PM EST

Texas legislature recently approved and sent to the governor Senate Bill 2, which will reduce local government control of property tax rate increases for operations. While not expected to trigger a significant number of rating actions immediately, Fitch will discuss the potential impact on local governments.

Listen Now | Read Press Release

S&P: Texas Local Governments Could Face Budget Headwinds--And Credit Quality Strain--From Property Tax Reform

On June 12, 2019, the governor of Texas signed the Texas Property Tax Reform and Transparency Act of 2019, a law requiring certain local government units to obtain voter approval to increase maintenance and operations (M&O) property tax revenues more than 3.5% above the previous year, excluding new construction.

Continue Reading

Jun. 12, 2019

Puerto Rico Pension Deal Scales Back on Planned Cuts to Retiree Benefits.

Proposed deal with U.S. territory's federal overseers would keep 61% of retirees whole, up from 25%

Puerto Rico's federal overseers have agreed to roll back some planned pension cuts under a proposed settlement with retirees, a key step toward wrapping up the largest U.S. municipal bankruptcy.

The official retiree committee appointed in Puerto Rico's court-supervised bankruptcy said the agreement would substantially improve the treatment of retirement benefits for 167,000 pensioners compared with a 30-year framework approved by the U.S. territory's financial-oversight board in May.

The deal, which requires court approval, covers Puerto Rico's $50 billion pension debt, the island's largest single liability. It also brings Puerto Rico closer to lifting the central government out of its more than two-year old bankruptcy. But it could face opposition from investors worried that shifting additional revenue to pensioners would deepen losses on billions of dollars in bond debt.

Government retirees who receive $1,200 a month or less in benefits would be shielded from any reduction under the settlement, up from a $600 threshold previously proposed by the board, according to signed settlement papers reviewed by The Wall Street Journal. The deal keeps 102,000 pensioners, or 61% of the total number, safe from cuts, compared with 45,000 or 25% in the earlier proposal, according to the retiree committee.

Those collecting pensions above the threshold would face progressively deeper cuts, but no more than 8.5%. Retirees wouldn't be penalized for Social Security and medical-insurance payments when cuts are calculated. Puerto Rico also would create a reserve fund to finance pension payments toward the end of the board's 30-year framework, when the government is projected to run deficits as economic growth slows and federal disaster-relief funding runs dry.

A board spokesman said the agreement "protects and secures pensions going forward" for both active and retired employees by putting near-term surplus aside to pay future benefits. "This agreement also provides for a fairer, simpler policy for adjusting pensions than what is in the fiscal plan," the spokesman said.

Puerto Rico Gov. Ricardo Rosselló has argued against any pension cuts, saying his administration has found $1.4 billion in savings elsewhere in the government budget to avoid benefit reductions. The board expects to file a plan of adjustment covering the central government within weeks, according to a person familiar with the matter.

The governor's top finance adviser, Christian Sobrino, said in a statement Wednesday the deal was "not acceptable" to the administration and that bond debt could be restructured "without having to impact our retirees."

The settlement would be put to a vote of all pensioners whose benefits are being cut and requires approval from half by number and two-thirds by dollar amount. The board has said that as unsecured creditors, pensioners would need to accept reductions on their claims alongside bondholders, as has occurred in other municipal bankruptcies.

The city of Detroit's 2014 bankruptcy plan cut pensions by 4.5% and froze cost-of-living increases while imposing steeper reductions on financial creditors. But the California cities of Stockton and San Bernardino cut bondholder claims through bankruptcy in 2015 and 2017, respectively, without corresponding pension cutbacks.

Since the assets of Puerto Rico's pension funds were almost completely exhausted, benefits since 2017 have been paid out of budget appropriations at a cost of more than $2 billion a year.

The Wall Street Journal

By Andrew Scurria

June 12, 2019 6:00 a.m. ET

[Puerto Rico’s Oversight Board Strikes $35 Billion Restructuring Deal With Commonwealth’s Bondholders.]

KEY POINTS

- The agreement, which is on the framework for the plan of adjustment, provide for more than a 60% average haircut for all $35 billion, a 36% haircut on pre-2012 general obligation or “GO” bonds, and a 27% haircut on public authority bonds.
- Of the roughly $13 billion in outstanding GO bonds, the bonds issued pre-2012 would receive 64 cents on the dollar, while the 2012 and 2014 GO bonds have a settlement option of receiving 45 cents on the dollar and 35 cents on the dollar.

The oversight board in charge of Puerto Rico’s ongoing debt restructuring saga announced late on Sunday they have come to terms with bondholders of around $35 billion, which accounts for nearly 50% of the bankrupt island’s total bonded debt.

The agreement, which is on the framework for the plan of adjustment, provide for more than a 60% average haircut for all $35 billion, a 36% haircut on pre-2012 general obligation or “GO” bonds, and a 27% haircut on public authority bonds that carry a constitutional guarantee on payment.

The deal with supporting creditors “will reduce the amount of Commonwealth-related bonds outstanding to less than $12 billion,” the oversight board said in a press release. It will also slash the bankrupt island’s debt service, including principal and interest over the next 30 years, by roughly half to $21 billion from $43 billion.

Of the roughly $13 billion in outstanding GO bonds, the bonds issued pre-2012 would receive 64 cents on the dollar, while the 2012 and 2014 GO bonds have a settlement option of receiving 45 cents on the dollar and 35 cents on the dollar, respectively, according to the deck for the proposed agreement.

The difference in recoveries stems from a legal move the federally appointed board made in January when they requested that the judge overseeing the bankruptcy proceedings invalidate $6 billion in general obligation bonds. The board argues that the bonds issued in 2012 and 2014 violated the terms of Puerto Rico’s constitution and therefore are not valid.

If the 2012 and 2014 bondholders decide not to settle for the proposed amounts, they have the option to litigate for pari recovery with pre-2012 bonds.

“We have fought hard for the interests of the people of Puerto Rico and we are glad to have reached a consensual agreement with creditors that lowers Puerto Rico’s total debt burden and its annual debt payments significantly,” said the Oversight Board’s Executive Director Natalie Jaresko. “These were tough negotiations and we are confident we reached the best deal possible for Puerto Rico to move on from decades of incurring debt we could not afford.”

Puerto Rico first defaulted on its general obligation bonds in July 2016, when it failed to pay roughly $1 billion owed to its creditors and hasn’t made any payments since.

“It is a very positive development for Puerto Rico that a cross section of large bondholders has worked with the Oversight Board to develop a consensual restructuring agreement that will accelerate the Commonwealth’s exit from bankruptcy, respect the lawful priority of valid public debt, and help ultimately restore capital markets access.” said Susheel Kirpalani, an attorney from Quinn Emanuel Urquhart & Sullivan who represents bondholders in the Lawful Constitutional Debt

Coalition.

That group holds approximately $1.4 billion in constitutionally backed debt and includes hedge funds GoldenTree Asset Management, Monarch Alternative Capital, Whitebox Advisors and Taconic Capital, according to public filings.

The deal, which took about three months of negotiations, is expected to be filed with the court within 30 days with bondholders anticipating the plan's ultimate approval by early 2020, according to a source familiar with the settlement agreement.

The Government of Puerto Rico issued a statement rejecting the deal, citing the administration's strong opposition to pension cuts, which are included in the amended fiscal plan the restructuring deal is premised on.

"Not one word of the PSA (Plan Support Agreement) is considered acceptable to AAFAF," Christian Sobrino Vega, the CEO and president of the Puerto Rico Fiscal Agency and Financial Advisory Authority said in the statement. AAFAF is the acronym for the agency's name in Spanish.

"And we can confidently state that no legislation, executive action or other administrative approval required from the Government of Puerto Rico will be taken to implement an agreement that directly or indirectly supports a Plan of Adjustment that cuts payments to our retirees," Sobrino Vega said.

The island's oversight board has been making some progress in 2019 after being appointed in 2017 to oversee the $73 billion restructuring, which is the largest in the history of the U.S. municipal bond market.

In February, U.S. District Judge Laura Taylor Swain, who is overseeing the record bankruptcy-like proceedings, approved a deal to restructure about $17 billion of sales tax backed bonds, known as COFINA for the Spanish acronym. In that deal, senior bondholders saw 93% recoveries, while junior bondholders received 53%.

Additionally, the court also approved the restructuring of around $4 billion for the Government Development Bank's debt.

There is also a preliminary agreement in place for about $8 billion in debt issued by the island's beleaguered electric power authority. And, on Wednesday, the oversight board announced a tentative deal to restructure more than $50 billion in unfunded pension liabilities.

CNBC

by Dawn Giel

JUN 16 2019 9:49 PM EDT

Philadelphia's Road to Pension Recovery.

Stakeholders and experts discuss city contributions, stock-market volatility, and other risk factors

The Pew Charitable Trusts brought together about 40 city policymakers, municipal union leaders, and public finance experts on May 3 to discuss these questions and others. The conversation followed the release of Pew's pension "stress test" analysis of the Philadelphia municipal system. This analytical tool looks at a range of scenarios for economic projections and investment returns to provide insight into potential long-term liabilities and costs.

The analysis showed that the city should move toward full funding over the next 15 to 20 years—even under the more pessimistic scenarios—if leaders continue to make large contributions and maintain other reforms.

"The city is taking its medicine," said Greg Mennis, director of Pew's public sector retirement system project. "On the other hand, it can be hard to stick to the plan. Stress testing is … really a reminder of what could go wrong."

Continue reading.

The Pew Charitable Trusts

By: Larry Eichel & Thomas Ginsberg

June 11, 2019

Illinois Last State in Nation to File Official Budget Report.

"Illinois is the only state in America that has yet to release its official report from fiscal year 2018 and state officials don't yet know when it will be released. … 'The Auditor General still has pending audits and until those financial statements are finalized, the Comptroller cannot complete the Fiscal Year 2018 CAFR,' said Abdon Pallach, spokesman for Illinois Comptroller Susana Mendoza. 'No date of issuance has been determined until this process is completed.' …"

Read the full article on: Daily Journal (Illinois)

Cole Lauterbach | June 14, 2019

Florida Creates Blockchain Task Force to Study Benefits of Blockchain Technology.

On May 23, 2019, Florida Gov. Ron DeSantis signed SB 1024 (Florida Blockchain Bill) into law to establish the Florida Blockchain Task Force (Blockchain Task Force) within the Florida Department of Financial Services. The Blockchain Task Force will study if and how Florida's state, county, and municipal governments can benefit from a transition to blockchain-based systems for recordkeeping, data security, financial transactions, and service delivery, and identify ways blockchain technology can be used to improve government interaction with businesses and the public.

The Florida legislation recognizes that blockchain and distributed ledger technology allow the secure recording of transactions and that blockchain can facilitate more efficient government service delivery, including facilitating safe paperless transactions and recordkeeping protected from cyberattacks and data destruction. With the passing of the Florida Blockchain Bill, Florida has joined a growing list of states – including New York, New Jersey, Illinois and Wyoming — that have formed task forces to study the potential benefits of blockchain.

Who Will Be on the Blockchain Task Force?

The Blockchain Task Force will consist of 13 members:

1. Three agency heads or executive directors of cabinet agencies, or their designees (all of whom will be appointed by the Florida governor).
2. Seven members of the public or private sector with knowledge and experience in blockchain technology (four members will be appointed by the governor and three members will be appointed by the chief financial officer).
3. Two members of the private sector with knowledge and experience in blockchain technology (one member will be appointed by the president of the Florida Senate; the other will be appointed by the speaker of the Florida House of Representatives).
4. One certified and licensed public accountant with knowledge and experience in blockchain technology (appointed by the governor).

What Will the Blockchain Task Force Do?

The Blockchain Task Force will explore and develop a master plan (Master Plan) for the expansion of the blockchain industry in Florida and will recommend policies and state investments that will help make Florida a leader in blockchain technology. The Master Plan will:

1. Identify the economic growth and development opportunities presented by blockchain technology.
2. Assess the existing blockchain technology in Florida.
3. Identify innovative and successful blockchain applications currently used by industry and other governments to determine viability for the state.
4. Review workforce needs and academic programs required to build blockchain technology expertise across all relevant industries.
5. Make recommendations to the Florida governor and the legislature that will promote innovation and economic growth and expedite the expansion of Florida's blockchain industry.

The Blockchain Task Force will study blockchain technology including:

1. Opportunities and risks associated with using blockchain technology for state and local governments.
2. Different types of blockchains (public and private) and different consensus algorithms.
3. Projects and cases currently under development in other states and local governments.
4. Legislative amendments to support secure paperless recordkeeping, increase cybersecurity, improve interactions with citizens, and encourage blockchain innovation for Florida businesses.
5. Identifying potential economic incentives for companies investing in blockchain technologies in collaboration with the state.
6. Recommending projects for potential blockchain solutions that would improve services for citizens and businesses.
7. Identifying the technical skills necessary to develop blockchain technology and ensuring that instruction in such skills is available at Florida secondary and post-secondary educational institutions.

The Blockchain Task Force will hold its first meeting within 90 days of May 23, 2019, and it must deliver its findings to the Florida governor and the Florida Legislature within 180 days of its first meeting.

by Carl A. Fornaris, John Hutton and Marina Olman-Pal

June 13 2019

Greenberg Traurig LLP

Iowa Supreme Court Upholds Amendments Narrowing Bargaining Rights for Public Sector Unions.

The Iowa Supreme Court released five eagerly awaited opinions upholding the 2017 amendments to the Public Employment Relations Act (PERA). The main case on which the four other companion cases relied was *American Federation of State, County and Municipal Employees Iowa Counsel 61 v. State of Iowa*, No. 17-1841 (May 17, 2019). Taken together, the cases upheld the amendments, which narrowed collective bargaining rights for certain public sector employee unions.

2017 Amendments to PERA

When Iowa's newly elected Republican legislature assumed office following the 2016 election, it quickly passed amendments to PERA. These amendments greatly increased government employer rights. The amendments did the following:

- Maintained collective bargaining rights for unions with membership consisting of greater than 30 percent public safety employees, effectively creating a two-class scheme of bargaining
- Narrowed *mandatory* subjects of bargaining for unions with membership consisting of less than 30 percent public safety employees to "base wages and other matters mutually agreed upon"
- Expanded *permissive* subjects of bargaining for unions with membership consisting of less than 30 percent public safety employees on topics such as shift differentials, overtime compensation, and longevity pay
- Ended the right to payroll deductions for union dues for all public employees

AFSCME Iowa Counsel 61 v. State of Iowa

In *AFSCME Iowa Counsel 61*, the court applied the rational basis test when considering the union's equal protection challenge to the two-class bargaining scheme. The test is "very deferential" to the legislature. Under this test, plaintiffs must show the legislation in question treats similarly situated individuals differently, and plaintiffs bear the heavy burden of refuting "every reasonable basis" on which the legislation could be sustained. The court struck down the plaintiffs' challenge, explaining that its "role is to decide whether constitutional lines were crossed, not to sit as a superlegislature rethinking policy choices of the elected branches." Accordingly, the court held that a concern for labor peace and the health and safety risks faced especially by public safety employees were "valid, realistically conceivable purpose[s]" for supporting the legislation.

When considering the freedom of association challenge, the court likewise applied the rational basis test. The Iowa constitution reviews laws touching upon the fundamental right to organize and join labor unions under strict scrutiny. But the court decided the rights affected by PERA did not touch upon these fundamental rights, adopting the state's argument that "[d]eclining to collectively bargain over certain topics does not inhibit the ability to associate." Because the amendments were facially neutral and the unions failed to show that the two-class bargaining scheme was chosen to target certain unions, the court held that the legislation survived rational basis review.

Companion Cases to *AFSCME Iowa Counsel 61*

In the four other cases, the court:

- rejected the plaintiffs' equal protection challenge to the payroll deduction prohibition by again applying the deferential rational basis test;
- clearly defined "base wages"—the remaining mandatory subject of bargaining—to mean the "minimum (bottom) pay for a job classification, category or title, exclusive of additional pay such as bonuses, premium pay, merit pay, performance pay or longevity pay" (In addition, the court held that "past collective bargaining agreements" mean agreements predating the expiring agreement.);
- required a public employer to meet to vote to finalize an agreement already ratified by the union before the contract became effective; and
- upheld a trial court's grant of summary judgement to the union in a contested ratification case, rejecting the state's argument that the Iowa Administrative Code required the state to ratify after the union's vote where the union had accepted the state's offer as a final act.

Key Takeaways

Public sector unions continue to face significant blows following the Supreme Court of the United States' decision in *Janus v. American Federation of State, County, and Municipal Employees, Council 31*. While not directly affecting private sector workplaces in Iowa, these five cases will have a financial impact on unions that represent both private and public sector unions. Moreover, given the prevailing winds of Janus and an employer-friendly National Labor Relations Board, employers in general are likely to face more aggressive organizing efforts. In turn, employers may want to consider preparing comprehensive strategies for addressing campaigns.

by Christina L. Wabiszewski

June 10 2019

Ogletree Deakins

California Blight-Fighting Agencies May Be Revived for Housing.

- **Lawmaker is eying new bond vehicle for redevelopment agencies**
- **Districts were killed in 2012 to help ease budget shortfall**

California redevelopment agencies used to embark on some dubious ventures such as golf courses before the blight-fighting agencies were abolished by the state legislature in 2012. Now, an assemblyman determined to revive them may also create a new vehicle to allow them to sell pooled bonds for affordable housing.

David Chiu, a Democrat from San Francisco, is reworking his bill to bring back the agencies funded by the extra taxes generated by development. Among the ideas he's vetting is pooling the tax revenue from participating cities and counties and issuing a bond through the state treasurer's office. Municipalities would receive their share of the proceeds based on the corresponding revenue from their tax-increment districts. The structure, by reducing the cost of debt, could generate 20% to 30% more funding that could be spent on housing, Chiu said.

Chiu is also considering how the projects could meet the state's climate change goals, such as encouraging new homes along transit corridors.

Chiu initially wanted his bill to be considered this year, but Governor Gavin Newsom's administration preferred to focus on other initiatives to boost housing production, he said. The latest iteration of his bill may emerge later this year or early next, he said.

"I have full intent to move this forward," Chiu said. "This is a crucial element in addressing the affordable housing crisis."

Former Governor Jerry Brown pushed to eliminate redevelopment agencies in order to redirect property-tax revenue to schools and other purposes amid a budget crisis. Newsom during his campaign for governor last year expressed support for bringing them back for housing. His spokesman Nathan Click didn't return requests for comment.

Chui's plan will encompass "the best elements of redevelopment, with modern 21st century changes not revisiting the mistakes of the past," he said. "This is not trying to address blight or some antiquated notion of urban renewal."

Bloomberg Markets

By Romy Varghese

June 6, 2019, 8:00 AM PDT

[Connecticut Closes a $3.7 Billion Deficit Without an Income-Tax Hike.]

- **$43 billion budget gets mostly positive reviews from investors**
- **'But the elephant in the room is still there,' analyst says**

Connecticut's $43 billion two-year budget, which spares residents an income-tax increase, is getting mostly positive reviews from investors.

The budget, approved by the Democratic-controlled House on Monday and by the Senate late Tuesday, closes a $3.7 billion gap. It maintains a hospital tax that generates $1 billion over two years, raises or expands the sales tax on everything from digital downloads to prepared foods and cuts employee healthcare cost by $185 million.

However, lawmakers largely avoided tackling the rising costs of debt service, pensions and healthcare that eat up more than 30% of state spending.

"'It's positive that they closed the gap and didn't raise income taxes and increasingly push wealthier residents out of the state," said Richard Schwam, a municipal credit analyst at AllianceBernstein LP. "But the elephant in the room is still there."

Connecticut's finances are on the mend as a surge in income-tax revenue boosts the rainy day fund to a projected $2.6 billion at the end of the fiscal year, providing a cushion for the next recession. Higher tax collections led S&P Global Ratings Inc. to raise its outlook on Connecticut's debt and ease pressure on the state to demand big concessions from public employees unions or cut spending.

Connecticut's borrowing costs relative to top-rated municipal debt has plunged by 0.4 percentage point since the beginning of the year as residents clamor for tax-exempt debt in the wake of the federal cap on state and local tax deductions.

Still, the fiscal stress that has pushed Connecticut's rating to the third-lowest among U.S. states is likely to continue. Lawmakers rejected Democratic Governor Ned Lamont's proposal to shift a quarter of teachers' pension costs to municipalities and haven't yet agreed to a 'debt diet' proposed by Lamont that would shrink state borrowing by 39% annually.

The state and public employee unions are still negotiating Lamont's proposal to tie cost-of-living increases for retirees to pension performance. A proposal by Lamont to toll state's major highways to pay for new roads, bridges and mass transit will be taken up in a special session of the Legislature.

The budget stretches repayment of the $14 billion shortfall of its teachers' pension to 30 years instead of 12, while reducing the assumed rate of return on investments to 6.9% from 8%. The move will allow the state to avoid a 60% increase in annual pension payments by 2032, but will cost taxpayer an additional $17 billion over the 30 year period, according to Nuveen, the investment firm.

"It kicks the can down the road," said Daniel Barton, co-manager of Mellon Investments Corp.'s Connecticut municipal bond fund. "While it helps the budget in the near term its now a long-term problem."

Lamont promised not to raise income taxes during his gubernatorial campaign last year and he kept that promise in his first budget. To the relief of Connecticut's wealthiest residents, a proposal by some Democrats to levy a 2% capital gains surtax wasn't in the budget.

And while the spending plan didn't increase the sales-tax rate, it extended the 6.35% tax to services like dry cleaning, interior design and parking. It also imposes a 1% tax on prepared foods and beverages, including restaurant meals, and increases taxes on partnerships and limited liability corporations.

"There is incremental improvement," said Andrew Clinton, president of Stamford, Connecticut-based Clinton Investment Management, which manages more than $650 million municipal bonds. "They got a budget agreement in a fairly orderly fashion. They're setting aside a significant sum for the rainy day fund."

At this time last year, Clinton's firm didn't hold any debt issued by the state. Now, it's one of its biggest holdings across client portfolios, evidence of his confidence Connecticut's finances are turning around.

In order to restructure the teachers' pension and comply with a covenant in a $2.1 billion pension bond issued in 2008, Lamont proposed establishing a special capital reserve fund using $381 million of the state's surplus equal to the maximum annual debt service on the pension bond. The state will use another $160 million of the surplus to settle litigation with the state's hospitals involving the state's provider tax.

Bloomberg Markets

By Martin Z Braun

June 5, 2019, 6:31 AM PDT Updated on June 5, 2019, 8:00 AM PDT

[Fitch: Evaluating KCI’s Airport Modernization Program.]

Kansas City International Airport’s obligation bonds ‘A’, outlook stable. Fitch will discuss the key risks it evaluated in its analysis of KCI’s nearly $1 billion debt issuance.

Speakers:

Scott Zuchorski – Senior Director, Global Infrastructure and Project Finance

Seth Lehman – Senior Director, Global Infrastructure and Project Finance

Jeffrey Lack – Director, Global Infrastructure and Project Finance

Listen Now

Will Legalizing Marijuana and Sports Betting Solve Illinois' Budget Problems?

The state, which has worse credit than any other and has had chronic budget deficits, passed a fiscal plan this week that relies on new revenue sources to help pay down its massive debt.

After years of passing late budgets — or no budget at all — in the era of bitter partisanship under former Republican Gov. Bruce Rauner, Illinois this week finalized one of its most comprehensive spending plans in recent memory.

It’s a nearly $40 billion, blockbuster budget that intends to raise revenue by legalizing recreational marijuana and sports betting, and places a constitutional amendment on the 2020 ballot to change the state’s income tax structure. It represents a 2 percent spending increase, some of which will boost public education and child welfare funding. Lawmakers also passed an additional $45 billion infrastructure plan.

While signing the budget Wednesday, Democratic Gov. J.B. Pritzker, who took office in Janurary, said leaders had “achieved something that has eluded state government for decades — we passed a real balanced budget.”

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 6, 2019 AT 4:34 PM

Credit Analysts Cautious Over Illinois Budget, Infrastructure Plan.

CHICAGO (Reuters) – Some results from Illinois’ action-packed spring legislation session that produced a budget and a variety of revenue-raising measures won initial praise on Monday from credit rating analysts, who cautioned that fiscal challenges remain.

Lawmakers wrapped up the session on Sunday, passing a $40.1 billion fiscal 2020 budget and a $45 billion infrastructure plan, along with a variety of tax and fee hikes and projected new revenue from a massive gambling expansion that includes sports betting, and from legalizing recreational marijuana.

Illinois has the lowest credit ratings among U.S. states at a notch or two above the junk level due to its huge $133.5 billion unfunded pension liability and chronic structural budget deficit.

Carol Spain, an S&P Global Ratings analyst, said the state's recently increased forecast for income tax collections along with revenue measures passed by the legislature resulted in a budget with "few one-time revenues."

"In S&P Global's view, the fiscal 2020 budget signals near-term credit stability and buys the state more time to address out-year gaps," she said in an email.

Spain added that to maintain an investment-grade rating, further progress is needed "toward sustainable structural balance, paying down its bill backlog, and addressing its pension liabilities."

Ted Hampton, a Moody's Investors Service analyst, said full payment of Illinois' fiscal 2020 pension contribution, which lawmakers said was in the budget, would be a positive move.

After an unexpected income tax revenue surge in April, Democratic Governor J.B. Pritzker dropped a proposal to extend the state's current 50-year pension payment plan and reduce the coming fiscal year's contribution.

Hampton said he will have to look at a provision in the budget that would restore a 6% cap on end-of-career teacher salary increases that had previously been lowered to 3% to cut pension costs.

Lawmakers also voted for a three-year extension of a bond-financed pension benefit buyback program also aimed at reducing costs.

A "Rebuild Illinois" capital plan passed by lawmakers is supported by higher taxes on gasoline, parking, and cigarettes, as well as money from a gambling expansion that adds casinos, including the first for Chicago.

"Generally, when we see states gathering the political courage to do things like raise gasoline taxes for an infrastructure plan that's also positive," Hampton said.

The $20.8 billion of bonds included in the plan would "substantially" increase Illinois' debt burden, according to Spain.

"The new revenues that will support increased debt service will relieve some state operating pressure, but Illinois' large liabilities will continue to weigh on its credit profile," she said.

Meanwhile, Illinois' yield penalty in the U.S. municipal bond market, the biggest among states, has shrunk to its lowest level since 2014 for 10-year bonds, according to Municipal Market Data (MMD). The state's bonds are yielding 139 basis points over MMD's benchmark triple-A yield scale, down from as much as 185 basis points earlier this year.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Monday, June 03, 2019 6:04 p.m. EDT

Baltimore Officials Estimate Damage From Ransomware Attack At Over $18 Million, Likely to Rise.

Early last month, hackers infected somewhere around 10,000 Baltimore, Maryland city computers with a "file-locking" ransomware variant called RobbinHood. Those hackers demanded a ransom of 13 bitcoin (at the time worth around $76,000, and today around $100,000) that would go up over time if it was not promptly paid out—and which the city refused to pay out.

According to a Wednesday report in Ars Technica, Baltimore Mayor Bernard "Jack" Young told reporters on Tuesday that crucial city services were now open for business, despite ongoing disruption. City Finance Director Henry Raymond added that some email accounts and phone lines had been restored, though many municipal payment and finance systems had to be operated in manual modes. Ars wrote that Young estimated the ongoing damage to be over $18 million, including "$8 million lost because of deferred or lost revenue while the city was unable to process payments."

Notable concerns included problems with access to parking and traffic violation databases, which along with some other systems were for the time being dependent on "paper documents and manual workarounds," Ars wrote. Additionally, a slow and labor-intensive process of authenticating and restoring login credentials for around 10,000 city employees is still ongoing and may not be complete until the end of the week:

Continue reading.

gizmodo.com

by Tom McKay

Wednesday 9:50pm

Moody's Raises Concerns over R.I. Continuing-Contracts Law.

PROVIDENCE — A warning from one of the nation's largest credit-rating agencies, Moody's Investors Service, has revived the debate over the union-backed continuing-contract legislation that Governor Raimondo signed last month over the objections of city and town leaders.

The new continuing-contract law indefinitely locks in wages and benefits in expired public-employee contracts. The teacher union lobbyists who took the lead in pushing the bill said it was aimed at preventing cities and towns from unilaterally slashing pay or making employees pay more for their health insurance during deadlocked negotiations.

"The law has the potential to provide collective bargaining units with advantages in negotiations," Moody's public-finance division wrote in a special report out Thursday that echoed one of the biggest concerns raised by Rhode Island mayors and town administrators.

Among the report's observations: Impact can vary from one city and town to another. Those that "budget conservatively and plan for wage growth" are best positioned to get through a contract dispute. And the fact that the new law does not impede the ability of cities and towns to lay off employees during any such standoff gives them an option if locked-in wages and benefits put them in a financial bind.

If, however, "the law proves to be a significant impediment to local governments' ability to negotiate labor contracts, therefore making expenditure management more difficult, it would be credit negative," the Moody's report says.

The headline over an accompanying chart says: "Education and public safety costs drive expenditure growth for Rhode Island cities and towns. New legislation regarding collective bargaining has potential to limit expenditure management flexibility."

"Rhode Island is not the only state with a version of continuing contract legislation," the report says. New York has a similar law, and "we believe that the law generally limits New York local governments' expenditure flexibility," Moody's says.

There was no immediate response from Democrat Raimondo, who vetoed an earlier version of the continuing-contract legislation in 2017. She signed this year's version after winning an endorsement for her 2018 reelection bid from a former political antagonist, the National Education Association of Rhode Island, and other public employee unions.

Among the unanswered questions: Did state Treasurer Seth Magaziner seek advice from the credit-rating agencies as the high-profile legislation was moving through the General Assembly, and before Raimondo signed it?

In answer to that same question, Raimondo spokesman Josh Block said: "No. She spoke with a wide array of stakeholders, including municipal leaders, union leaders and members of the General Assembly. This bill preserves what has already been the status quo in most instances, is standard practice in the private sector, and is existing policy in our neighboring states."

Rhode Island is currently rated "Aa2" stable.

In her 2017 veto message, Raimondo said:

"Current Rhode Island law protects the taxpayers from being obligated indefinitely for contract provisions that, in the future, may not be affordable. … The proposed legislation before me extinguishes this existing protection, hurting the public's position in contract negotiations, and placing taxpayers at risk of being forever locked into contractual provisions they can no longer afford."

In a statement explaining her turnaround, Raimondo said the more recent bill differs from the one she vetoed, which "went too far in automatically extending all provisions in collective-bargaining agreements for municipal employees and teachers until a successor agreement has been reached."

This version only locks in wages and benefits, she said.

Brian Daniels, executive director of the R.I. League of Cities and Towns, and Thursday: "This Moody's report echoes the exact concerns that our municipal leaders made to the General Assembly and the Governor.

"With personnel the largest component of a municipal budget, the contract continuation law will make it much harder to negotiate labor contracts, balance competing local budget needs and control spending. Now Moody's is saying that it could also harm a community's bond rating, making it more expensive to borrow money for infrastructure and school improvements. It is unfortunate that the General Assembly and the Governor ignored local officials, and now property taxpayers will bear the burden of the new law."

newportri.com

By Katherine Gregg
Journal Political Writer

Jun 6, 2019 at 2:52 PM

Ambac Announces The Wisconsin Office of the Commissioner of Insurance Did Not Approve The Surplus Note Interest Payment Due on June 7, 2019.

NEW YORK, May 31, 2019 (GLOBE NEWSWIRE) — Ambac Financial Group, Inc. (AMBC) ("Ambac"), a holding company whose subsidiaries, including Ambac Assurance Corporation ("AAC"), provide financial guarantees, announced today that the Wisconsin Office of the Commissioner of Insurance did not approve AAC's request to pay surplus note accrued and unpaid interest on the next scheduled interest payment date of June 7, 2019.

About Ambac
Ambac Financial Group, Inc. ("Ambac" or "AFG"), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation ("Ambac Assurance" or "AAC"), Everspan Financial Guarantee Corp. and Ambac Assurance UK Limited ("Ambac UK"), provide financial guarantees of obligations in both the public and private sectors globally. AAC is a guarantor of public finance and structured finance obligations. Ambac's common stock trades on the NASDAQ Global Select Market under the symbol "AMBC". The Amended and Restated Certificate of Incorporation of Ambac contains substantial restrictions on the ability to transfer Ambac's common stock. Subject to limited exceptions, any attempted transfer of common stock shall be prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), any person or group of persons shall become a holder of 5% or more of Ambac's common stock or a holder of 5% or more of Ambac's common stock increases its ownership interest. Ambac is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, we use our website to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates to the status of certain residential mortgage backed securities litigations. For more information, please go to www.ambac.com.

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Bond Titan Spurns Illinois Rally Over ‘Pension Beasts’

- **Big investor won’t buy uninsured bonds from state, Chicago**
- **‘More likely than not’ bondholders would be hurt, firm says**

The municipal-bond market has shown some optimism recently that Illinois and Chicago will ultimately tackle their huge pension burdens. But one of the biggest buyers of state and local government debt isn’t so sure.

Franklin Templeton Investments, which manages more than $60 billion in municipal securities, said it won’t buy uninsured general-obligation bonds from Illinois and any debt from Chicago and the city’s public school system, citing the threat from “pension beasts.”

“Will Illinois’ governor and Chicago’s mayor eventually impair bondholders rather than push for sensible pension reforms? We think it’s more likely than not, unfortunately,” Franklin analysts led by Sheila Amoroso wrote in a blog post.

The comments buck the broader sentiment in the market, where Illinois bonds have rallied this year on optimism about Governor J.B. Pritzker’s plans to mend the state’s finances, in part by scrapping the flat income tax to raise more revenue.

But state and local politicians’ focus on levying new taxes or selling assets such as land won’t make the math work to solve a pension problem that for Illinois is a “fire-breathing monster that dwarfs Illinois’ revenue-generating capacity,” the Franklin analysts wrote.

When it comes to investing in Illinois, the firm favors so-called essential-service revenue bonds, such as toll roads, because the dedicated stream of income provides more security than debt backed only by a government’s promise to repay.

The analysts said they may change their minds if they see “a willingness of elected politicians to educate the public on the true scope of the situation and enact sensible pension reforms.”

States can’t go bankrupt, nor can Chicago under Illinois law, and no state has defaulted since the Great Depression. But investors would have reason to be wary: In the handful of municipal bankruptcies, bondholders have fared worse than pensioners.

Franklin has experience with such risks. The firm was one of the biggest investors in Puerto Rico, which was allowed to go bankrupt after Congress changed the law to rescue it from a worsening debt crisis. Franklin held about $2.3 billion of the territory’s bonds when the island first began defaulting in 2015. Franklin in 2016 closed its Double Tax-Free Income Fund, which directed almost half of its investments to Puerto Rico, as prices on the securities tumbled and investors pulled money from the fund.

Bloomberg Markets

By Romy Varghese

May 30, 2019, 10:52 AM PDT

— With assistance by Michelle Kaske

Cyberattack Hobbles Baltimore for Two Weeks and Counting.

City faces second ransomware attack in 15 months; water bills, home sales face delays

BALTIMORE—About 10,000 city government computers here remain frozen two weeks after a disruptive cyberattack that has delayed home sales and halted water bills.

Baltimore was hit May 7 by hackers demanding an undisclosed sum to unlock computers. The city hasn't paid, and the Federal Bureau of Investigation is probing the incident. Mayor Bernard C. "Jack" Young has warned it could take months to recover some systems.

"It's extremely alarming," said City Council President Brandon Scott.

This is Baltimore's second cyberattack in 15 months. In March 2018, a short-lived ransomware attack on the city's 911 system forced dispatchers to temporarily relay addresses and other information to first-responders by phone rather than electronically.

City officials emphasized that key services such as 911 emergency dispatch haven't been affected by the current cyberattack.

Ransomware attacks are common in both the public and private sectors, and attackers are generally looking to exploit any vulnerability they can turn into extortion for money. After accessing systems through methods like malicious emails, hackers can encrypt files and then demand payment in bitcoin to unlock them.

Local governments are often more vulnerable than private companies, said Bill Siegel, chief executive at Coveware, a Connecticut-based firm that helps entities victimized by cyberattacks. "I think broadly they are not prepared for these sorts of things, they do not have the budget," he said.

For Baltimore, "I think it's pretty obvious that they have not been able to stay ahead of it," said Mr. Siegel, who hasn't worked with the city on this problem.

Frank Johnson, Baltimore's chief information officer, didn't respond to a request to comment Tuesday.

Mr. Scott said he will form a special committee to investigate the episode and city officials' handling of it, "but most importantly, how they're going to work to have this not happen in the future."

While the city and outside contractors continued working Monday to restore the municipal computer system, officials began implementing a workaround to allow home sales to proceed.

Between 200 and 300 closings have been hung up because the city couldn't tell title insurers whether the seller had any unpaid liens, said Alan Ingraham, chief executive of the Greater Baltimore Board of Realtors.

Starting Monday, sellers were able to sign an affidavit promising to pay any liens, such as unpaid water bills, that are discovered once the computers come back online. Mr. Young's office said the city processed 42 applications for property deeds on the first day of the workaround.

Mark Glazer, executive director of the Maryland Land Title Association, a trade group for title insurers and agents, said this helps but he hopes the city resumes full operations quickly. May and June are busy months for deal closings, he said.

Meanwhile, the problems continue for some city agencies. Epidemiologists in Baltimore's health department can't access the state network that helps them warn the public when bad batches of street drugs trigger overdoses. And the city's public-works department can't generate new water bills for customers, which could mean residents will get unusually high bills once the problem is fixed.

"We can't see the consumption data that our meters are collecting and sending to us," said Jeff Raymond, a spokesman for the public-works department.

Greenville, N.C., was attacked last month by the same type of ransomware afflicting Baltimore, dubbed Robbinhood. The attackers demanded 13 bitcoins—worth roughly $69,000 at that point—to unlock the city's files. The city didn't pay, spokesman Brock Letchworth said in an email.

"While not 100% restored, all of our major technology needs are now being met," he said.

Atlanta last year endured one of the highest-profile ransomware attacks on a major city. The city also refused to pay the ransom demand—$51,000 in that case—and has faced millions of dollars in costs to rebuild and bolster defenses.

In Baltimore, Mr. Scott said he pushed city officials to strengthen cyber defenses after last year's 911 hack but that they "decided not to invest in this area."

A spokesman for Mr. Young, who became mayor May 2 upon the resignation of Catherine Pugh, said Mr. Young has directed officials to obtain cybersecurity insurance, which would help offset the cost of any future hacks.

The Wall Street Journal

By Scott Calvert and Jon Kamp

Updated May 21, 2019 4:48 p.m. ET

Fitch Ratings: Strong Economy Continues to Propel California's Budget

Fitch Ratings-New York-20 May 2019: The updated budget proposal for fiscal 2020, released by Governor Newsom in his "May Revise," continues to build budgetary resilience, while also increasing spending on education and social welfare programs, says Fitch Ratings. The budget revision takes advantage of strong revenue collections in the current fiscal 2019 and a $1.7 billion increase in the forecast for fiscal 2020, as compared to the January budget proposal, propelled by continued strength in the California economy that is driving higher personal and corporate income tax collections. The budget focuses on sustainability of program expansions through use of one-time spending, continues to pay down long-term liabilities, and funds the rainy day fund. The approach taken in the revised budget appears prudent, in Fitch's view, and an enacted budget with similar priorities would bode well for continued fiscal stability in light of the state's volatile tax structure and the inevitability of a future economic downturn.

Fitch's assessment of the state's credit quality assumes a continuation of the strong budget management the state has demonstrated through this extended period of economic recovery and expansion; the governor's proposed budget is consistent with this assumption. California's 'AA-' Issuer Default Rating also recognizes its large and diverse economy, solid ability to manage expenses through the economic cycle and moderate level of liabilities; although California's flexibility is somewhat more restricted than most states due to its constitutional requirement for funding education and voter initiatives that limit policymakers' discretion.

Reasonable Assumptions for Revenue Growth

The governor's budget proposal is based on a revenue forecast of modest growth that reflects the continued expansion of the California economy tempered by the risk that the current economic expansion has passed its peak. It also accommodates the expectation of slower out-year revenue growth by allowing certain program expansions to sunset; this should help to maintain structural budgetary balance.

The proposed general fund budget assumes 3.4% growth in revenues over the current fiscal year to $147.8 billion and estimates that current year revenues will exceed the forecast upon which the fiscal 2019 budget was enacted by $34.6 billion (3.3%) and total $142.9 billion, driven by strong capital gains and corporate income tax collections. The 3.4% growth rate for fiscal 2020 is below the average growth rate experienced by the state since emerging from the recession, taking into account various changes in tax law related to personal income and sales taxes. Much of the increase in revenue will be automatically allocated to K-14 education under Proposition 98, but will also support increased spending for Medi-Cal (California's Medicaid program), higher education, programs that counteract poverty and homelessness, climate change, infrastructure, and paying down liabilities.

Building Budget Resiliency

The governor's revised budget proposal allocates $15 billion to building budgetary resiliency by adding to reserves and paying down unfunded pension liabilities, debt, and deferrals, an increase of $1.4 billion over the January proposal. The governor is proposing to set aside $2.2 billion from fiscal 2020 revenues in the state's rainy day fund (the Budget Stabilization Account), $1.2 billion more than initially proposed in January. This would bring the balance to $16.5 billion, reaching 100% of the target of 10% of tax revenues as originally detailed in Proposition 2, which established the fund. The governor has offered a new interpretation of Proposition 2 that does not count previous supplemental contributions toward the required funding level, potentially raising the deposits to the rainy day fund. A fully funded rainy day fund supports the state's very strong gap-closing capacity and would help it to weather a downturn in the economy, while maintaining financial flexibility, in contrast to prior economic downturns.

In addition to the rainy day fund, the governor continues to propose adding $700 million to the Safety Net Reserve that was initially funded at $200 million in the fiscal 2019 budget, but lowering the balance in the Special Fund for Economic Uncertainties to $1.645 billion from just under $2 billion, for a net increase of $537 million in discretionary reserves. The revised budget proposal makes the first ever deposit ($389 million) into the Public School System Stabilization Account, as required by Proposition 2. This reserve is intended to offset volatility in school funding in the event of a downturn.

Governor Newsom's application of excess revenues to one-time supplemental spending in fiscal 2019 to pay down long-term liabilities and eliminate remaining budgetary deferrals bodes well for a continued balanced approach to budgeting under the new administration. This practice also provides flexibility to maintain balanced operations if revenue growth expectations are not realized. At its peak, the state's budgetary borrowing totalled approximately $35 billion, including outstanding debt in the form of the Economic Recovery Bonds, payment deferrals to schools and local governments, payroll shifts between fiscal years and interfund borrowing. The governor's budget proposal for fiscal 2020 eliminates the final pieces of budgetary borrowing, allowing the state to direct revenues generated from Proposition 2 to other long-term liabilities, including for pensions and other post-employment benefits.

Longer term budget sustainability also is provided by the application of surplus revenues to one-time spending, including supplemental contributions to the retirement funds: $3 billion for CalPERS and $2.3 billion to CalSTRS as supplemental appropriations in the current year plus $1.1 billion for CalSTRS proposed for fiscal 2020. These are intended both to reduce employer contribution rates and to provide savings over time. Other one-time spending focuses primarily on education and housing, with facilities for all-day kindergarten, expanded childcare facilities, and a variety of grants and incentives designed to address housing production and homelessness.

The revised budget would increase ongoing spending by $3.4 billion, approximately $500 million more than proposed in January and higher than in recent budgets. However, as the out-year revenue forecast is slightly more pessimistic than was the case in January, the governor is proposing sunsets to several categories of program expenditures in order to avoid emergence of a structural deficit.

Adjustments to Spending Proposals

The governor is not making major changes to the spending proposed in the January budget, although there are several adjustments. Of note is an increase in state support for programs to address homelessness, with the governor proposing $1 billion in spending, including $650 million allocated to local governments for emergency aid. The revision also increases the health and human services budget request by $1.1 billion over the January proposal. Other more modest changes include, slowing the creation of additional pre-school slots, a priority highlighted in the budget, recognizing both longer implementation time and the possibility of slower revenue growth.

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S&P Charter School Brief: Michigan

As of May 17, 2019, S&P Global Ratings maintains 28 public ratings on Michigan charter schools. Michigan enacted its charter school law in 1993, with the first schools opening in 1994. Today there are about 300 charter schools in the state serving just under 150,000 students, or approximately

10% of the state's kindergarten through 12th grade (K-12) population.

Continue Reading

May 17, 2019

Detroit Schools Borrow More and More to Pay Back Bonds.

- **Detroit schools millage not generating enough tax revenue to meet bond obligation**
- **School district borrowing tens of millions of dollars annually to service debt**
- **Turnaround superintendent faces "some pretty tall cliffs" with aging buildings**

Detroit's public school district is borrowing money to make payments on debt it borrowed years ago to fix up schools.

And earlier this month, for the first time in nine consecutive years of this practice, the district had to borrow more than half of the $182.1 million total payment to bondholders for capital debt.

Detroit Public Schools, the standalone entity left in place in 2016 to pay off legacy costs when a new debt-free school district was formed, borrowed $91.5 million from the state's School Loan Revolving Fund because a greatly reduced property tax base in Detroit does not produce enough tax dollars for the school district to make good on its debt.

Continue reading.

CRAIN'S DETROIT BUSINESS

by CHAD LIVENGOOD

May 26, 2019 12:05 AM

Moody's: New Jersey's Recession Preparedness Reserves are Weak.

Three years after Moody's Corp. municipal finance analysts last evaluated U.S. states' recession preparedness, it has published an update that looks at four fiscal and credit variables to determine how well states can weather a moderate recession without significant adverse credit impact.

While Moody's found that most states will be able to weather a moderate recession – due in part to healthy reserves and inherently strong fiscal flexibility, Moody's found preparedness is stronger for 22 states and moderate for 26 – New Jersey (rated A3/stable) and Illinois (rated Baa3/stable) showed weaker recession preparedness.

States were rated on the following credit factors: revenue volatility, coverage by reserves, financial flexibility and pension risk.

"While current economic conditions are strong, states are aware that a downturn will come eventually and are building reserves to prepare," said Emily Raimes, vice president and senior credit officer at Moody's, in a prepared statement. "While most states have healthy reserves and inherently strong fiscal flexibility, Illinois and New Jersey both have low levels of reserves relative to the potential revenue decline in our recession scenario.

“In addition, they both show weakness in their pension risk scores,” Raimes said.

While New Jersey has recently added to its reserves as the state works to improve its fiscal preparedness, Illinois is developing a strategy to improve its pension funding and structural budget balance.

Moody’s added that while fiscal expansions at the federal level have offset state revenue shortfalls in previous recessions, the economy will enter the next recession with less fiscal space than before the financial crisis.

Wide federal budget deficits, a rising debt burden and a polarized political environment have reduced the fiscal space of the United States compared with its position before the most recent recession. The federal government, therefore, might not be in a position to help states in the next recession as it has in the past.

Moody’s says that one way states can deal with a revenue shortfall when a recession hits is to plug a portion of the budget gap with reserves. When estimates of expected reserve levels were applied, Moody’s saw coverage of a revenue decline equal to the state’s largest one-year revenue decline. In this scenario, 26 states would be able to cover the decline solely with reserves.

By: NJBIZ STAFF

May 20, 2019 3:59 pm

Illinois Governor Eyes $41.5 Billion Plan to Rebuild State's Infrastructure.

CHICAGO — Illinois would spend $41.5 billion over six years to rebuild roads, bridges, schools and other facilities that have fallen into “dire shape,” under a preliminary plan floated by Governor J.B. Pritzker on Friday.

The Democratic governor’s plan, which was distributed to lawmakers and seen by Reuters, would be funded in part with $17.8 billion of bonds even as Illinois pays the biggest yield penalty among states to sell debt.

A huge $133.5 billion unfunded pension liability and chronic structural budget deficits have helped push Illinois’ credit ratings down to a notch or two above the junk level.

Other funding sources in the draft plan include about $7 billion in cash and $10 billion in federal money.

Illinois would raise about $1.78 billion annually for the plan by increasing state taxes on motor fuel, nonresidential real estate transfers and liquor, and hiking vehicle registration fees. The plan also calls for taxing ride shares, garage parking, and cable, satellite, and streaming services for the first time by the state.

Jordan Abudayyeh, Pritzker’s spokeswoman, said the administration is working on a preliminary draft of a comprehensive capital plan that included input from Democratic and Republican lawmakers and that would “finally fix our crumbling infrastructure.”

“The administration looks forward to continuing to engaging in productive conversations before the proposal is finalized,” she said in a statement.

State Senator Martin Sandoval, the Senate Democrats’ point person on infrastructure, said Pritzker’s plan has been eagerly awaited.

Steve Brown, a spokesman for Democratic House Speaker Michael Madigan, said the plan is “a good step forward.”

Meanwhile, the Democrat-controlled legislature, which is in the final two weeks of its spring session, has a full plate of issues, including a spending plan for the fiscal year that begins on July 1.

Pritzker’s $39 billion proposed fiscal 2020 budget includes about $370 million in new money if lawmakers legalize recreational marijuana and sports betting.

The governor also wants lawmakers to place a constitutional amendment on the November 2020 ballot to replace Illinois’ flat income tax with graduated rates – a key component of his long-term fix for the state’s sagging finances.

On Friday, Illinois’ 10-year bond yield was 3.22 percent, well above California’s 1.74 percent yield and New York State’s 1.69 percent yield, according to Municipal Market Data.

By Reuters

May 17, 2019

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Why Illinois Is 'Show of Shows' in 'Tight' Muni Market.

Jamie Iselin, head of municipal fixed income at Neuberger Berman, examines the municipal Bond market with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

Bloomberg Markets: Muni MomentTV Shows

May 17th, 2019, 8:37 AM PDT

Illinois Pension Consolidation: A Path Forward Or A Road To Nowhere?

As most observers of Illinois municipal finance are aware, chronic underfunding of public sector pensions is not limited to major entities such as the city of Chicago or the Chicago Board of Education. The approximately 650 public safety (single-employer police and firefighters) pension plans in Illinois are 55% funded, in aggregate. In general, these plans have suffered from years of underfunding

Continue Reading

May 14, 2019

Fitch Ratings: Illinois' Revenue Picture Improves but Fiscal Questions Remain

Fitch Ratings-New York-09 May 2019: Robust revenues collections for April provide some short-term budgetary relief for Illinois, but significant uncertainties remain regarding structural budget balance, including for next year, says Fitch Ratings.

Illinois' 'BBB' Issuer Default Rating (IDR) reflects a historical pattern of weak operating performance and irresolute fiscal decision-making. The Negative Rating Outlook reflects our assessment that near-term fiscal challenges will pressure the rating.

Fitch has indicated that we would lower the state's IDR if Illinois returned to a pattern of deferring payments for near-term budget balancing. A reported 32% year over year (yoy) gain in monthly general funds tax receipts for April 2019 has alleviated immediate pressure in Illinois' fiscal 2019 budget. The state's commission on government forecasting and accountability (COGFA) also reports that for the fiscal year to date (FYTD), general funds tax receipts are up nearly 10% – as of March that growth was just under 6%.

Based on these strong collections, the governor's office of management and budget (GOMB) and department of revenue (DOR) will revise forecast personal and corporate income tax revenues for fiscal 2019 up by approximately $1.4 billion, or 7% from the estimate included in the February executive budget proposal. This largely resolves what GOMB previously estimated as a $1.6 billion deficit for the current year, and addresses part of Fitch's rating sensitivities related to the Negative Outlook.

The sustainability of the April revenue surprise is uncertain, but will be critical in assessing how much this helps in addressing Illinois' structural budget gap, particularly for next fiscal year. Total gross personal income tax revenues through April were up more than $1.8 billion from the prior year, or just over 10%. COGFA's initial assessment is that non-wage income tax revenues were a key component of the April gains. Non-wage revenues consist mainly of capital gains related income and are notoriously volatile. Non-wage taxpayer responses to the December 2017 federal tax changes (commonly referred to as the Tax Cuts and Jobs Act), as well as the state's own income tax increase that was effective July 1, 2017, further complicate the revenue picture.

Fitch notes sales tax collections are also up at a very healthy pace of more than 7% yoy, or nearly $500 million, but that pace is also unlikely to be sustained. Growth accelerated rapidly following the Oct. 1, 2018 effective date of state regulations regarding remote, mainly online, sellers, following last June's Wayfair U.S. Supreme Court decision. Through September, sales tax receipts had been growing at less than 4% yoy. After October, that FYTD growth rate spiked to 5.5% and has climbed since then. By next October, Fitch anticipates some of that growth will fall off following a full year of the regulations being effective.

It is far from clear how much of the revenue gains in April 2019 are likely be maintained in future years. While acknowledging this uncertainty, GOMB and DOR have revised their estimate of fiscal 2020 revenues upwards by roughly $800 million. This revision allows the state to delay, and possibly avoid entirely, a potentially costly proposal to extend the pension amortization by seven years, while maintaining the comparatively weak 90% funding target. The re-amortization is one element in a five-part plan outlined earlier this year by the administration (see “Fitch Ratings: IL Pension Plan Frames the Rating Picture; Budget Details Still Key,” Feb. 19, 2019).

If the upward revenue adjustment reflects sustainable revenue growth and the pension re-amortization is not implemented next year, this would reduce the use of non-recurring measures in the budget by nearly $900 million (the previously estimated savings from the re-amortization). The remaining non-recurring revenue measures in the governor’s fiscal 2020 executive budget would be 1%-2% of the proposed $38.7 billion general funds operating budget. These include initial licensing fees from legalization of cannabis ($170 million) and sports wagering ($200 million), and a tax amnesty plan ($175 million) (see “Fitch Ratings: IL Illinois Governor’s Budget Plan Would Make Insufficient Progress,” Feb. 26, 2019).

The governor framed his executive budget plan as a bridge budget that would buy time until the state is able to implement his proposed graduated income tax and then achieve more substantive fiscal progress. This new tax requires a state constitutional amendment that must be approved by legislative super-majorities (which Democrats have in both chambers) and then by voters, either by a super-majority of those voting on the amendment or a simple majority of all those voting in the election. While the state Senate recently approved the measure, and related bills to set tax rates, the legislation must still clear the House and then gain voter approval. Fitch estimates the earliest it could be approved would be in the November 2020 general election with implementation on Jan. 1, 2021, more than 18 months from now.

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Maryland School District Turns to P3s to Tackle $8.5B Backlog.

Dive Brief:

- Prince George’s County, Maryland, officials say they’re going to use use public-private partnerships (P3s) to help address an $8.5 billion backlog of public school construction and maintenance projects.
- County Executive Angela Alsobrooks said using a P3 model would save approximately $180 million

by turning over the construction, maintenance and financing duties to the private sector. Alsobrooks said this approach would allow the county to build 18 schools in seven years. The county, according to The Washington Post, plans on using one company to perform all the work and will begin reimbursements to that contractor as students occupy each new building.
- The Maryland state legislature passed a bill establishing a framework for how the state would contribute to the program, but county officials will have to wait until next year to seek funding. Regardless of the state's actions, the county will invest $25 million to $30 million annually into school construction projects for the next 30 years. The county believes schools will be built 14 years faster using a P3 and for 15% to 20% cheaper.

Continue reading.

Construction Dive

by Kim Slowey

May 8,2019

City of El Paso Considering Public-Private Partnership for Downtown Arena.

The city of El Paso is considering an option where a private partner helps design, build, partially finance and operate the downtown multipurpose performing arts and entertainment center, commonly called the arena.

A request for proposal (RFP) submitted by the city's Purchasing and Strategic Sourcing Department on April 30 requests a financial and business advisory consulting service that would help the city oversee applications from potential partners, according to the documents. Proposals for the financial consulting services are due by May 15 and a contract award is scheduled for August this year.

A public-private partnership (P3) project or program refers to a chapter in Texas law that allows for a contractual agreement between a public and private entity to work on a project.

Continue reading.

El Paso Times

by Aaron Montes

May 8, 2019 |

S&P Charter School Brief: Texas

As of May 9, 2019, S&P Global Ratings maintains 32 public ratings on charter schools, in the State of Texas, which, along with California, tops our list of states with the most rated charter schools. Today, Texas is home to almost 800 charter schools. The Texas legislature enacted its charter school law in 1995, and in the fall of 1996, the state's first charter schools opened their doors.

Continue Reading

May 9, 2019

[S&P: Will The Next Phase Of Seismic Compliance Spending Shake California Hospital Ratings?]

In the past 20 years, many California acute care providers have absorbed significant capital spending and operating expenses related to achieving seismic compliance as mandated by state law. Meeting compliance milestones occurred while the industry underwent significant changes and the economy experienced a major recession.

Continue Reading

May 9, 2019

Board Extends Power to Cover Puerto Rico's 78 Municipalities.

SAN JUAN, Puerto Rico — A federal control board that oversees Puerto Rico's finances voted on Thursday to extend its power and bring all of the U.S. territory's 78 municipalities under its supervision for the first time.

The board announced that it also will require fiscal plans and budgets from 10 of those municipalities as well as from a government agency that collects property taxes as part of a pilot program to help boost the island's economy amid a 12-year recession.

"This is absolutely not a takeover of anything," said board chairman José Carrión. "We all know that the municipalities are facing challenges."

The board expects to help implement measures to reduce spending, increase a tax collection rate from 68% to 85%, hire more property appraisers and reduce the number of property exemptions, among other things. Board members said the Center for Collection of Municipal Revenue is missing more than 300,000 properties from its registry and needs another 150 appraisers.

The municipalities targeted for the pilot program are: Aibonito, Barranquitas, Camuy, Cidra, Comerío, Isabela, Orocovis, Quebradillas, San Sebastián and Villalba.

They are located in the island's central and northwestern regions.

"If we don't start having a conversation with them…they're going to be facing a critical situation in the future," said board member José González.

Board members said it's too early to say whether the program will be extended.

The board also approved a new fiscal plan that allocates more funding to Puerto Rico's health, education and public safety sectors but contains austerity measures rejected by the local government, including a 10% cut to professional services expenses. It previously announced cuts to a public pension system facing nearly $50 billion in unfunded liabilities.

Raúl Maldonado, Puerto Rico's chief financial officer, said the measures place an unfair burden on the island's workers and retirees.

"They cannot implement more austerity," he said. "This would only deepen people's suffering."

The board, which Congress created after Puerto Rico announced in 2015 that it was unable to pay its debts following decades of corruption and mismanagement, is helping restructure a portion of the island's more than $70 billion public debt as part of a bankruptcy-like process.

During Thursday's public hearing, the board lowered its predicted surplus and economic growth for Puerto Rico in the near future.

It said Puerto Rico has not implemented several reforms and that the U.S. government has been slow in disbursing a total of $83 billion expected in disaster recovery funds aimed at helping the island rebuild from Hurricane Maria, a Category 4 storm that hit in September 2017 and caused more than an estimated $100 billion in damage.

The latest plan calls for an $11,500 salary increase over two years for Puerto Rico police officers, plus $33 million to provide them with Social Security, which they currently do not receive. In addition, the plan includes a $500 annual salary increase for all firefighters, an overall $14 million wage increase for all teachers and directors, a $1.4 billion increase for Puerto Rico's health care system, and $4.5 million to hire 95 employees to help decrease a backlog of cases at the island's struggling forensics science agency.

The board expects Puerto Rico to have a $13.7 billion surplus by 2024 and economic growth of 4% for fiscal year 2019 and 1.5% the following year.

The meeting comes nearly a week after the board reached a deal with bondholders to restructure the $9 billion debt held by Puerto Rico's Electric Power Authority. The deal means customers will pay an additional amount of more than $130 a year in 2021 and nearly $220 by 2043, according to an analysis by the Institute for Energy Economics and Financial Analysis.

By The Associated Press

May 9, 2019

Puerto Rico Board Boosts 30-Year Debt Payment Forecast.

U.S. territory's financial overseers project 54% more available for creditors through 2049 compared with previous estimate

Puerto Rico's financial overseers approved a 30-year fiscal framework that boosts the amount potentially available to repay debt by 54% while extending their supervisory powers for the first time over the U.S. territory's 78 municipalities.

The oversight board steering Puerto Rico's financial restructuring certified a fiscal plan Thursday that includes a $19.7 billion primary surplus through 2049, an increase over last year's $12.8 billion forecast. The surplus projection is closely watched by Puerto Rico's bondholders as an indicator of how much cash is available to repay them through court-approved debt restructuring plans.

Despite a rise in the long-term projected surplus, the five-year estimate fell to $13.7 billion from

$17.9 billion, reflecting a slower rollout of disaster relief spending following the 2017 hurricane season.

Roughly $5.4 billion of the projected surplus will only be available if lawmakers allow the central government to access cash generated by a workers' compensation fund and other public corporations, said Natalie Jaresko, the board's executive director.

The projections also depend on the island government strengthening work requirements, easing business regulations and streamlining permitting rules, she said.

The new fiscal plan builds on a previous version certified in October that raised expectations for disaster relief funding surrounding the devastating 2017 hurricane season and the resulting economic stimulus.

The board Friday reaffirmed that it expected Puerto Rico to receive $83 billion over time in disaster relief from federal dollars and insurance proceeds, including $49 billion from the Federal Emergency Management Agency.

The fiscal plan was the board's first since federal appeals court judges threw its authority into doubt by ruling that its members must be nominated by the president and confirmed by the Senate. The White House last week said President Trump would put the board's current members up for a Senate vote. The appeals court has set a July 15 deadline for them to win confirmation or lose their authority to act.

Puerto Rico's general-obligation bonds, maturing in 2035, held steady Thursday at 49.5 cents on the dollar, according to Municipal Securities Rulemaking Board data.

But population decline projections included in the fiscal plan worsened after fertility data and macroeconomic forecasts painted a gloomier picture of Puerto Rico's future demographics.

An aging population, low birthrates and persistent migration to the mainland U.S. has sapped Puerto Rico's tax base for the past decade and was exacerbated by the destruction of 2017's Hurricane Maria, which leveled the island's power grid and displaced thousands.

The board now projects that by 2049, 32% fewer people will live in Puerto Rico, an additional 8% decline compared with last year's population estimates. Despite estimating a surplus overall in the 30-year fiscal plan, the board projected that Puerto Rico would run primary deficits starting in 2038 as the disaster relief stimulus fades.

Puerto Rico's 78 municipalities were brought under the supervision of the board, which will require 10 of them to submit fiscal plans and budgets under a pilot program.

In a nod to the difficulties of overhauling Puerto Rico's state-run electricity system, the board also delayed by a year the economic impact from privatizing the power generation and transmission businesses. Private bidders are evaluating the power system with an eye toward making takeover proposals, Ms. Jaresko said.

Creditors of Puerto Rico's electric utility reached a proposed settlement last week for $9 billion in power revenue debt, an important milestone in ending the public monopoly over electricity. The deal requires court approval to become effective.

Yet the board is far from an agreement from investors who own $28 billion in core government debt and filed lawsuits last week seeking to have $9 billion in general obligations zeroed out, a move with little precedent in municipal debt restructurings.

The Wall Street Journal

By Andrew Scurria

May 9, 2019 6:17 p.m. ET

Puerto Rico Oversight Board to Take Local Governments Under Its Wing.

SAN JUAN — Puerto Rico's financial oversight board on Thursday unexpectedly added the island's towns and cities to its mandate, a move that it said was aimed at trying to help them avoid insolvency.

To date, the federally created board has only focused on the central government of the U.S. territory, which filed for bankruptcy in 2017 as it sought to restructure about $120 billion of debt and pension obligations.

Board officials said the move was not aimed at eliminating local governments or pushing them into bankruptcy.

"This is absolutely not a takeover of anything," José Carrión, the board's chairman, told reporters, adding that the purpose was to help cities improve their finances and services.

However, Christian Sobrino, Governor Ricardo Rosselló's representative on the board, questioned if the board had the capacity to fully oversee municipal governments.

"I would not recommend designating all 78 municipalities as covered entities. But that is the board's prerogative," Sobrino said.

"The board lacks the personnel and resources. It is a lot of work," he added.

The board said it will launch a pilot program with 10 local governments.

The 10 will be required to submit fiscal plans by June 7 that include spending cuts, efficiency measures like shared services, as well as programs to improve revenue collection and boost economic development. Central government subsidies to municipalities are expected to be phased out by 2024.

Luis Hernandez, mayor of Villalba, one of the municipalities in the pilot program, said board officials had told the mayors that they would provide technical resources to help.

"The board understood that towns are the ones that directly provide services to citizens. They vowed to help us," Hernandez said.

The board also certified a new fiscal plan for the island that shows a surplus of about $20 billion in the next 30 years, and includes revised macroeconomic, revenue and expense data. The plan also revises economic growth estimates resulting from structural changes that the government has not fully implemented.

"You can't expect economic growth until (structural reform) is actually implemented," said Natalie

Jaresko, the board's executive director.

By Reuters

May 9, 2019

(Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago; Editing by Matthew Lewis and Rosalba O'Brien)

Fitch Rtgs: Congestion Pricing Will Provide Reliable Revenue to MTA

Fitch Ratings-Chicago-01 May 2019: Planned congestion pricing in New York City (NYC) will provide a reliable funding source for Metropolitan Transportation Authority (MTA) capital improvements but how significant the revenue source will be depends upon the toll policy instituted, says Fitch Ratings. What will be implemented in NYC does not necessarily presage the introduction of similar programs in other large US cities. The success of congestion pricing plans depends upon robust public transit systems, increased investment in transit and policymakers' willingness to impose tolls that meaningfully change consumer behavior, which could prove politically challenging.

Car ridership, including rideshare trips, is up in most US metropolitan areas, spurring cities, such as Seattle, WA; Los Angeles, CA; San Francisco, CA; and Philadelphia, PA to contemplate congestion pricing. NYC congestion pricing was approved in the most recent New York State budget and will take effect at the beginning of 2021 at the earliest. Transit ridership is declining in most US cities, with Seattle as a notable exception. In New York, the MTA is projecting a decline in consolidated ridership for the fifth consecutive year in fiscal 2019.

Policymakers' will be watching New York's introduction of congestion pricing closely to see how well the system meets revenue and traffic reduction goals, whether the plan has unintended consequences for the existing transport system and how voters respond. The success of congestion pricing from both a traffic reduction and transport revenue perspective very much depends on the toll policy instituted. In New York, a Traffic Mobility Review Board appointed by the MTA will release a recommendation for pricing in 2020, and the MTA's Triborough Bridge and Tunnel Authority will be responsible for implementing the program.

All congestion pricing revenue will go to the MTA to fund capital improvements. According to the budget, the MTA is directed to ensure a minimum of annual net revenue and fees sufficient from the program to fund $15 billion for MTA capital projects. Importantly, while this will be a consistent source of capital funding for the MTA, the MTA itself noted this revenue may not be sufficient to address the entirety of its 2020-2024 Capital Program and $40 billion 'Fast Forward' plan.

A precursor to congestion pricing in the US is dynamically priced tolls on managed lanes, used in Virginia, Florida, and other states, where tolls rise with increased congestion. These systems demonstrate people are willing to pay for faster commuting times and pricing must be aggressive at times to achieve policymakers' traffic reduction goals.

Pricing power for many congested facilities proved higher than initially projected with high observed toll rates necessary to reduce traffic to free flow speeds on certain corridors, such as I-66 inside the DC Beltway in Virginia. Los Angeles and Miami capped dynamic tolls, which counteracts the intended effect of reducing traffic for those willing to pay and suggest the pricing and political pressures congestion pricing faces in the US.

Indeed, despite the revenue it generates to fund capital improvements, tolling continues to encounter resistance. Transportation agencies in Los Angeles and San Francisco have begun to study congestion pricing anew as traffic surged with increased car ownership and the expansion of ride hailing services. Legislative approval is likely to prove contentious, as lawmakers representing suburban commuters fought past attempts to implement congestion pricing. Opposition to tolling more broadly on state highways played out in recent state legislature initiatives, including in Florida, Texas and Virginia.

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[To Address Climate Threat, California Must Lead the Way on Green Bonds.]

We celebrated Earth Day last week, but climate change threatens our quality of life and poses material risk to our communities every day.

A recent article by the Federal Reserve Bank of San Francisco points out that climate change also poses a real threat to our economy. Similarly, other reports identify tens of billions of dollars in infrastructure needs in California. They also say new infrastructure must be resilient, adaptable and responsive to the threat of climate change.

Last year, California's leaders committed the state to eliminating fossil fuels from its electrical grid by 2045. At his first State of the State Address, Gov. Gavin Newsom reaffirmed that California "will never waver on achieving the nation's most ambitious clean energy goals. California's long-time commitment to the environment and to fighting climate change remains as strong as ever."

California has an opportunity now to demonstrate its continued leadership in two ways. First, we can recognize the value green bonds can contribute to meeting the state's infrastructure needs – and use California's market presence to ensure that green bonds marketed to investors truly are green.

Green bonds are borrowings by the state that finance vital infrastructure such as water supplies, flood control and roadways. What makes these bonds "green" is that the borrowed money is spent on things that promote environmental benefits.

Consider the organic food movement, which struggled for years to develop a standard for what is truly organic. Today the U.S. has four different levels of categories for organic standards established at the national level. These established protocols and terms have provided greater clarity for American consumers.

I believe we are in a similar situation today with green bonds in the United States. There is no accepted definition of what a green bond is. However, the investors who buy California's bonds are clamoring for more bonds that can be identified as green.

Recognizing the threat of climate change, in conjunction with financing California's infrastructure assets, my predecessor executed the Green Bond Pledge. It's a simple declaration that financing infrastructure and capital projects must address environmental impact and climate risk.

The Standards Board of the Climate Bonds Initiative, an international, investor-focused nonprofit organization, has developed a labeling protocol for green finance based on sound science and reliable data. So have other groups.

Whether it's the standard proposed by the Climate Bonds Initiative or another standard, it's important that California begin deploying green bond financing based on a sound and scientific practice of identifying green projects that deserve the green label.

The second critical step is that California must begin to deliberately incorporate green bonds into the planning and deployment of financing strategies for our infrastructure. By investing in physical assets that support positive impacts on our climate – or which make the public infrastructure more resilient to climate change – we can demonstrate to the rest of the world, and to investors in California, that we intend to lead toward the health of our planet.

I have called upon various policymakers to join with me in a concerted effort to identify public projects financed with bonds issued by the state that are candidates for green finance. We must also develop a policy for prioritizing those projects if they meet the standards established by recognized international scientists as supporting resilience, adaptation or climate response.

I hope to see a consensus develop around the identification process in time to accommodate California's normal cycle of bond sales by spring 2020.

BY FIONA MA SPECIAL TO THE SACRAMENTO BEE

APRIL 30, 2019 12:01 AM, UPDATED APRIL 30, 2019 05:50 PM

Fiona Ma is California's state treasurer

[Puerto Rico Board's $1 Billion Lawsuit Escalates Bond Feud.]

- **Cases seek more than $1 billion from investors, banks**
- **Move may strengthen Puerto Rico’s hand in creditor talks**

Puerto Rico’s federal oversight board sued dozens of banks and bondholders to claw back more than $1 billion in fees and interest payments tied to debt the government claims is null and void.

The suits, filed just before a May 2 deadline, escalate the board’s conflict with hedge funds and other investors who hold some $6 billion of Puerto Rico general-obligation debt. The cases are part of an effort by island officials to cancel large chunks of general-obligation bonds issued in 2012 and 2014. The board, and some island creditors, argue the debt was sold after the government overshot its constitutional debt limit.

The latest legal challenges pose a risk for banks including Barclays Plc, Bank of America Corp., Morgan Stanley, JPMorgan Chase & Co, Goldman Sachs Group Inc., Banco Santander SA and others that underwrote or otherwise helped engineer Puerto Rico’s debt as its financial troubles escalated. Representatives of those banks declined to comment or didn’t immediately respond.

“The laws of Puerto Rico limit government borrowing authority for a reason: to prevent the government and its financiers from hitching the commonwealth and its instrumentalities, as well as taxpayers and legitimate creditors, to a level of debt that cannot be repaid without sacrificing services necessary to maintain the health, safety, and welfare of Puerto Rico and its people,” one of the suits said.

Negotiating Tactic

The moves are aimed at bringing money back to the island and may strengthen the oversight board’s hand in negotiations with owners of debt backed by the territory’s central government, the biggest chunk that has yet to be restructured in its record-setting bankruptcy.

“They’re doing it as a negotiating technique, trying to use that to leverage a more reduced payment,” said Jim Spiotto, managing director at Chapman Strategic Advisors. “It’s more of a negotiating tactic than actual reality.”

Any ruling invalidating the bonds would free up cash for other creditors and could have broader implications for the $3.8 trillion municipal-debt market, a haven where investors rely on the assertions of governments and attorneys that securities are legitimately issued. A successful effort to persuade the court to void the bonds could also jeopardize Puerto Rico’s ability to finance needed work on its infrastructure.

“Puerto Rico has to realize if you basically mug the bondholders, what’s your future?” Spiotto said. The financial rescue law that allowed for the territory’s bankruptcy “is there to build financial credibility in the capital markets so they would have access to the market in the future. What they’re doing is the opposite.”

The lawsuits were filed by New York bankruptcy attorney Ed Weisfelner, whose law firm, Brown Rudnick, was hired by the board to pursue the cases. Last week, in an interview and at a court hearing, Weisfelner said he planned to target dozens of underwriters and advisers and to recoup interest payments from the biggest bondholders.

Smaller investors won’t be affected. The suits seek to recover interest payments on the disputed bonds from investors holding at least $2.5 million of the securities.

Some of the Puerto Rico general-obligation bonds that the panel is challenging trade for about 51 cents on the dollar, indicating that investors don't expect to be entirely wiped out. But that risk may encourage them to strike a deal with Puerto Rico to write off some of the debt in court, as the government has already done with bonds backed by sales-tax revenue and the island's government development bank.

The federal board in January asked the court to declare general-obligation debt sold in 2012 and 2014 as null and void, claiming the sale of those securities pushed Puerto Rico over its legal debt limit.

To compensate bondholders for having their debt canceled, the lawsuits against the underwriters may be turned over to investors to try to collect on as part of a debt restructuring plan, Weisfelner said. In bankruptcy, lawsuits are often treated as assets, which creditors can use to recover what they are owed.

The official committee of unsecured creditors unsuccessfully sought to bring additional lawsuits, arguing they would be more aggressive and less likely to encounter any conflicts of interest. The committee has claimed the board has close ties to some individuals or institutions responsible for Puerto Rico's debt crisis. U.S. Bankruptcy Judge Laura Taylor Swain rejected that request.

Bloomberg Markets

By Steven Church and Michelle Kaske

May 2, 2019, 3:32 AM PDT Updated on May 2, 2019, 9:49 AM PDT

Puerto Rico Announces Deal to Restructure Power Authority Debt.

SAN JUAN (Reuters) – Puerto Rico's power utility struck a deal with a group of creditors that seeks to allow the bankrupt U.S. commonwealth to restructure more than $8 billion of bonds, according to an announcement by government authorities on Friday.

A group of Puerto Rico Electric Power Authority (PREPA) bondholders, bond insurer Assured Guaranty Corp, along with the island's government and federally created financial oversight board, reached a restructuring support agreement that would reduce the utility's debt by up to 32.5 percent.

The move paves the way for a plan of adjustment for PREPA, which filed for a form of bankruptcy in July 2017 after a previous restructuring deal fell apart. The latest agreement, which requires support from at least 67 percent of voting bondholders to materialize, would shed about $3 billion in debt service payments over the next decade.

The deal also requires the approval of a U.S. judge hearing Puerto Rico's bankruptcy cases, as well as legislative action.

Under the agreement, investors will exchange their PREPA bonds at 67.5 cents on the dollar for new Tranche A bonds and 10 cents on the dollar for new Tranche B bonds. The latter would be contingent on full payment of Tranche A bonds and future electricity demand on the island.

PREPA will pay off the new bonds through a special charge levied on its customers. The new charge starts at approximately 1 cent per kilowatt hour prior to the deal's closing, increasing to some 2.768 cents per kilowatt hour upon closing and gradually increasing to approximately 4.552 cents per kilowatt hour during the expected 40-year lifespan of the bonds.

The deal still lacks the support of other PREPA creditors, most notably bond insurer National Public Finance Guarantee Corp. A spokesman for National declined to comment.

National Public Finance filed an objection last month when a deal in principle was announced, saying that "until very recently" it was excluded from negotiations even though it is PREPA's largest creditor. National has also asked the court to appoint a receiver for PREPA, support among other creditor remains unclear following Friday's announcement.

According to government and board officials, the privatization of PREPA is under way, with transmission and distribution contracts with private companies expected to be in place by the second quarter of 2020.

"Now with this agreement we take a monumental step to provide for the restructuring of the debts and obligations of PREPA and finally conclude the bankruptcy process," Governor Ricardo Rossello said in a statement.

If approved in federal court, PREPA's restructuring would mark the third major deal in Puerto Rico's efforts to restructure about $120 billion of debt and pension obligations. Deals involving the island's sales tax-backed bonds and Government Development Bank have been approved by U.S. Judge Laura Taylor Swain.

PREPA's financial and operational problems were compounded by Hurricane Maria, which slammed into the island in September 2017, decimating an electric grid already struggling due to poor rate collection, heavy management turnover and lack of maintenance.

by Luis Valentin Ortiz

MAY 3, 2019

Reporting by Luis Valentin Ortiz in San Juan, Puerto Rico; additional reporting by Karen Pierog in Chicago; Editing by Leslie Adler

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Puerto Rico Seeks to Have $9 Billion in Debt Ruled Unconstitutional.

The government oversight board leading Puerto Rico through its $123 billion debt crisis sued dozens of banks and financial firms on Thursday, saying that they had helped the island issue $9 billion of debt illegally, and that the people of Puerto Rico should not have to repay it.

The board said the debt should be voided because it exceeded the territory's constitutional debt limit, and it added that Puerto Rico would try to recover hundreds of millions of dollars in interest and principal payments that it has already made.

The board was joined in the litigation by the official committee representing Puerto Rico's unsecured creditors in the territory's bankruptcy-like legal proceedings. Both plaintiffs said they understood they were making an unusual request, but asserted that no other approach would be legal or fair.

“The laws of Puerto Rico limit government borrowing authority for a reason: to prevent the government and its financiers from hitching the Commonwealth and its instrumentalities, as well as taxpayers and legitimate creditors, to a level of debt that cannot be repaid without sacrificing services necessary to maintain the health, safety and welfare of Puerto Rico and its people,” the plaintiffs said in one of several complaints.

The lawsuit names as defendants a large number of major financial institutions just as the oversight board is trying to work with them to restructure billions of dollars in debt.

Matt Fabian, a partner at Municipal Market Analytics, a research firm that is not involved in the litigation, said he thought the lawsuits would make it harder for Puerto Rico to negotiate with its creditors. In some cases, he said, the institutions being sued were the same ones that Puerto Rico would seek assistance from in the future, once the current restructuring is finished and the island needs to issue new debt.

Citibank, one defendant, is working as an adviser to the oversight board on the debt restructuring. “How do you sue?” Mr. Fabian asked. “It’s like going in for a root canal and suing the dentist while you’re still in the chair.”

Municipal bonds are very seldom voided, and there is no precedent for such a step under Promesa, the bankruptcy-like law enacted by Congress to handle Puerto Rico’s debt crisis. As a territory, the island is legally barred from using Chapter 9 municipal bankruptcy to restructure, and Promesa has not been used before. But such maneuvers have been employed in other municipal bankruptcies.

The complaints named a number of financial-services firms that underwrote the bonds, because the board and creditor group said the firms should have understood that the bonds would have put the territory beyond its debt limit. The defendants include Citigroup, Goldman Sachs and JPMorgan Chase and a number of other major banks. Citigroup and Goldman declined to comment, as did JPMorgan.

Also named in the complaints were firms involved in selling Puerto Rico financial instruments meant to protect the territory in the event the interest rates on the bonds rose.

The complaints also named the law firm Sidley Austin as a defendant, claiming that it had improperly determined that the bonds were in compliance with the debt limit. The firm said the complaint, which seeks the return of fees paid to it, was “untimely and entirely without merit,” said Linton Childs, the firm’s general counsel.

Advocacy groups have been calling for months for at least some of Puerto Rico’s debt to be voided, but a legal analysis commissioned by the board said it would be difficult to do, in part because much of the debt was issued years ago and the statute of limitations would have run out. The oversight board had asked the court for more time to consider its options, but the court said no, leaving Friday as the deadline for any possible lawsuits.

The actions of the oversight board, and the details of the restructuring, have attracted the attention of members of Congress. The House Natural Resources Committee, which has oversight of United States territories and drafted Promesa, heard from the board’s executive director and the territory’s governor in a hearing on Thursday.

Ricardo Rosselló, Puerto Rico’s governor and a critic of the board, told lawmakers that it had not achieved its objectives and had overstepped its bounds. The board’s executive director, Natalie Jaresko, defended the board and said 30 percent of the island’s debt had already been restructured and discussed its claims concerning the validity of some of the bonds.

The lawsuits center on Puerto Rico's constitutional debt limit, which establishes a ceiling for the amount of general-obligation bonds the island's government can issue. The limit does not apply to other types of debt, however, and the lawsuits argue that the banks helped Puerto Rico's government design and market bonds that appeared to be something other than general-obligation bonds, thereby circumventing the limit and, ultimately, making the island's insolvency much worse.

For example, the complaint said, bonds issued by Puerto Rico's Public Buildings Authority to build and maintain public schools were to be repaid by rental payments on the buildings. That made them seem like revenue bonds, which are not counted toward the debt ceiling. But in fact, the rent payments were made by the government's general fund — the same source of money that repays the general-obligation bonds. For that reason, the school-construction bonds should have been counted as general-obligation bonds, the lawsuit says.

Had all of the government's bonds been properly classified, it would have been clear that Puerto Rico had exceeded its constitutional debt limit, the lawsuit said.

In addition to the $4 billion of bonds issued by the Public Buildings Authority, the lawsuits said general-obligation bonds issued in 2011 and 2014 exceeded the debt ceiling and should be voided.

"It would not be equitable, or legal, to ask the taxpayers and legitimate creditors or Puerto Rico to bear a burden from which they are protected by their own Constitution and statutes," one complaint said. "That burden should instead be shouldered by those who, knowing of Puerto Rico's increasingly dire financial crisis, chose to lend to Puerto Rico, or purchase Puerto Rico debt that carried high effective interest rates as a reflection of risk."

The New York Times

By Mary Williams Walsh

May 2, 2019

[S&P Charter School Brief: Pennsylvania]

As of April 26, 2019, S&P Global Ratings maintained 22 public ratings on bonds secured by Pennsylvania charter schools. In 1997, the commonwealth passed its charter school law, establishing its requirements for charter schools and outlining the state's responsibilities toward charter schools, including funding and transportation requirements.

[Continue Reading]

Apr. 26, 2019

[S&P Extra Credit: New York State, Transit, And Locals]

Listen to Lisa Schroeer and visiting co-host Tiffany Tribbitt cover this action packed podcast covering the New York State Budget and its potential impact on local governments, as well as our view on congestion pricing. Analysts Tim Little, Paul Dyson, and Nora Wittstruck provide their insights.

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Apr. 22, 2019

S&P State Brief: Hawaii

With slowing economic growth and revenue forecasts, the state of Hawaii could face a reappearance of fiscal pressures, which may be further exacerbated by its aging demographic trends. The downward revision in the general fund tax revenue forecast to 4.2% from 5.0% in January, and again to 3.0% in March 2019 by the state's Council on Revenues (COR) indicates potentially subdued economic growth ahe

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Apr. 22, 2019

Illinois Budget Gap a Concern for Municipal Bond Market: Fitch

Eric Kim, senior director of public finance at Fitch Ratings, discusses his firm's concerns about the State of Illinois as the municipal bond market becomes more positive on the state's debt. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets – Muni MomentTV Shows

April 24th, 2019, 8:38 AM PDT

Fitch Rates Philadelphia, PA's GOs 'A-'; Outlook Revised to Positive.

Fitch Ratings-New York-19 April 2019: Fitch Ratings has assigned an 'A-' rating to the city of Philadelphia, Pennsylvania's $179.69 million general obligation (GO) refunding bonds, series 2019A.

The bonds are expected to sell through a negotiated sale on or about April 30, 2019. Proceeds will refund certain outstanding GO bonds of the city.

Fitch has also affirmed the following ratings at 'A-':

–$157.6 million Philadelphia Municipal Authority (PMA) bonds;
–$1.9 billion Philadelphia Authority for Industrial Development (PAID) bonds;
–$206.5 million Philadelphia Redevelopment Authority (PRA) bonds;
–$10.9 million Philadelphia Parking Authority (PPA) parking system revenue bonds, series 1999A;

–Philadelphia’s Issuer Default Rating (IDR);
–$1.5 billion Philadelphia GO bonds.

The Rating Outlook is revised to Positive from Stable.

SECURITY
GO bonds are backed by the city’s full faith and credit and are payable from an ad valorem tax without limitation as to rate or amount

The bonds issued by PMA, PAID, PRA, and PPA are payable from annual service fee or lease rental payments by the city under non-cancellable agreements. The city’s obligation to make payments is absolute and unconditional. State law and the city charter obligate the city council to appropriate annual payments through final maturity, and Fitch rates these on par with the city’s GO bonds and IDR given the lack of optionality.

ANALYTICAL CONCLUSION

The Outlook revision to Positive reflects gains in Philadelphia’s operating performance and overall flexibility, which could support a higher rating if the city is able to consolidate those improvements as spending pressure ramps up, including for pension costs, new labor contracts, and the school district.

Philadelphia’s ‘A-‘ IDR reflects its strong economic base and solid revenue growth prospects, offset by expenditure constraints and reserves which had been fairly modest until very recently. The long-term liability burden is somewhat elevated but well within the capacity of the city’s resource base. A comparatively constrained expenditure framework pressures the budget, but solid economic and revenue growth and careful budget monitoring should support spending demands. Long-term forecasting, active fiscal management, and close oversight from a state board provide important support for the city’s financial resilience.

The ‘A-‘ ratings on lease and service fee agreement bonds issued by various authorities for the city, as well as the PPA series 1999A parking system revenue bonds, reflect the lack of optionality for appropriation embedded in these commitments by city ordinance, the city’s charter and state law.

Economic Resource Base
Philadelphia serves as a regional economic center in the Northeast, with a stable employment base weighted toward the higher education and healthcare sectors. Jobs expansion since the Great Recession has been steady and strong, but comparatively low wealth levels and modest population increases persist, limiting growth prospects. The population is approximately 1.6 million.

KEY RATING DRIVERS

Revenue Framework: ‘aa’
The income, property and sales taxes that are Philadelphia’s primary revenue sources will likely grow ahead of inflation but below national GDP given economic prospects, absent policy action. Philadelphia retains essentially unlimited independent legal ability to raise revenues.

Expenditure Framework: ‘a’
Philadelphia’s recent expenditure growth has been measured, reflecting ongoing budgetary control efforts. The city faces persistent fixed-cost growth pressures with limited flexibility regarding labor expenses given a highly unionized workforce and a statutorily-defined collective bargaining framework. The future trajectory of spending growth will likely exceed baseline revenue growth, requiring continued proactive budgeting.

Long-Term Liability Burden: ‘a’
Long-term liabilities are somewhat elevated but still in the moderate range relative to Philadelphia’s resource base.

Operating Performance: ‘bbb’
Recent gains in the city’s ability to respond to changing fiscal circumstances, including higher reserves, reflect improved budgetary management practices and robust revenue growth. In the event of a downturn, Fitch anticipates the city would address fiscal stress with its available tools, including some use of reserves, and continue its demonstrated ability to gradually recover financial flexibility.

RATING SENSITIVITIES
SUSTAINED IMPROVEMENT IN FINANCIAL FLEXIBILITY: The city has made recent progress in enhancing fiscal resilience and its budgetary management, benefiting from a long economic expansion and strong tax revenue growth. Indications that these gains reflect sustainable improvements in the city’s fundamental financial flexibility, such as achieving projected reserve levels over the next one to two years and maintaining the federal funding reserve cushion, would support an upgrade. Our view of the city’s current operating performance is tempered by Philadelphia’s significant budgetary stress following the Great Recession and somewhat inconsistent progress in restoring financial flexibility since then.

MANAGEMENT OF EXPENDITURE PRESSURES: One potential hurdle for the city will be expenditure challenges. Philadelphia faces notable expenditure pressures over the next several years including for contracts for a mostly unionized workforce which expire at the end of fiscal 2020, demands for increased funding for the school district that is now under city control, and retirement benefit costs. The city has taken steps to mitigate these risks including a labor reserve, a multi-year commitment to increase appropriations to the school district and supplemental pension contributions, all of which are built into the city’s five-year financial plans. An upgrade will be contingent on the city’s ability to manage that growth while consolidating the recent improvements in overall financial flexibility.

CREDIT PROFILE

Revenue Framework
Philadelphia has a diverse revenue base, with a wage tax, business income and receipts taxes, a property tax and a sales tax, each generating a significant portion of local revenues. The wage and earnings tax (essentially an individual income tax without a capital gains component) accounts for more than one-third of general fund revenues. A tax on net profits of businesses within the city generates a much smaller share of revenues and is often reported with the wage and earnings tax.

The city also receives transfers from the Pennsylvania Intergovernmental Cooperation Authority (PICA) of a 1.5% tax on wages, earnings and net profits, net of deductions for debt service on PICA revenue bonds. Including the PICA transfer, the total revenues derived from wage, earnings and net profits taxes make up approximately one-half of general fund revenues. The other key revenue sources make up another one-third of general fund revenues.

Historically, the wage and earnings tax (also referred to as the wage tax) has proven relatively resilient with limited declines. For well over a decade, the city has been gradually reducing rates to enhance the city’s economic competitiveness. The wage tax is levied on both residents and non-residents working within Philadelphia (and on residents working outside the city), thereby capturing higher wealth levels in surrounding suburbs and offsetting Philadelphia’s high poverty rate.

Property taxes have shown little volatility throughout economic cycles as well, with more robust growth in recent years attributable to the strong real estate market and the city's continued position as a regional economic center. Other tax revenues have been more volatile, due mainly to policy changes at the city and commonwealth levels.

Historical general fund revenue growth, after adjusting for a significant accounting change, has been robust. However, the growth also reflects tax policy changes including both rate increases and decreases. The city shifted certain federal and commonwealth grants from the general fund to the grants revenue fund beginning in fiscal 2012; these grants averaged $469 million between fiscal years 1999 and 2011, or roughly 10% to 15% of general fund revenues. Management provided Fitch with detailed breakouts of the revenues from prior years, which allowed Fitch to adjust general fund revenues to a like-for-like basis by removing the affected revenues in earlier years.

Fitch anticipates solid general fund revenue growth, absent future policy actions, ahead of inflation but somewhat below national economic growth. Significant policy changes implemented by the city include small but regular rate reductions in the wage tax (except for three years around the Great Recession, when the city held rates steady), restructuring of the business income and receipts tax, and sales tax rate changes authorized by the commonwealth.

Philadelphia maintains ample independent legal authority to adjust revenues, other than the sales tax, under provisions of Pennsylvania's Sterling Act. The city has regularly utilized that ability to adjust wage, business income and receipts, and property taxes to improve Philadelphia's economic competitiveness or provide additional budgetary flexibility.

The Philadelphia beverage tax (PBT) is levied on the distribution of certain beverages at 1.5 cents per ounce. Proceeds are funding specific policy initiatives, including expanded pre-kindergarten. PBT revenue has fallen short of expectations. The city continues to moderate spending on related initiatives to reflect lower receipts. Fiscal 2018 collections were just under $80 million, or a modest approximately 2% of general fund revenues.

Expenditure Framework

Philadelphia pays for a wide range of public services, but public safety represents the largest expenditure category (about one-half of spending), as with many local governments. The city does not directly pay for education but does support the coterminous School District of Philadelphia (SDP, IDR BB-/Stable) with direct appropriations and through other policy measures such as statutory allocations of specific taxes.

In recent years, the city issued short-term bonds to finance an SDP operating deficit, and the commonwealth Legislature permanently redirected part of an increase in the city's local sales tax levy to the district. The commonwealth originally authorized the increased levy (to 2% from 1%) effective in fiscal 2010 as a temporary measure and directed it to the city's pension contributions. Effective in fiscal 2015, the commonwealth made the increase permanent and designated a fixed portion for the school district and any excess to the city's pension system.

Spending growth absent policy actions will likely exceed projected natural revenue growth due to a high demand for services (particularly given the city's low wealth levels), moderating yet persistent growth in pension and other labor costs, and increased support for SDP.

Philadelphia has adequate expenditure flexibility with a moderate carrying cost burden for debt service and post-retirement benefit costs (approximately 14% in fiscal 2018) but a constraining workforce environment. Pension costs have escalated sharply in recent years due partially to actuarial adjustments to revise down the investment return assumption (to a still somewhat aggressive 7.55% for the fiscal year 2020 contribution calculation) and apply findings from the 2016 actuarial experience study. The pension board has lowered the investment return assumption steadily from 8.75% for the fiscal 2008 contribution and intends to continue reducing the rate in future years.

Pension contributions growth remains a pressure point. To help mitigate this, the city consistently directs any new and otherwise unallocated revenues to the pension fund. For fiscal 2019, a statutorily-required (at the commonwealth) allocation from the city's sales tax to pay down the pension liability increases by approximately $15 million as debt service on the short-term bonds for SDP rolls off with bond maturity, rising to $45.2 million. The city also allocated $74.4 million from the fiscal 2018 ending general fund balance, which was $140 million higher than budgeted, to the pension system.

In addition, since fiscal 2018, the city is contributing using a revenue recognition policy (RRP) that leads to contributions above the statutorily required minimum municipal obligation (MMO), which is essentially the actuarially determined contribution (ADC). The RRP excludes the sales tax contributions and certain recently collectively-bargained increases in employee contributions when calculating the city's annual pension contributions. Therefore, instead of reducing annual contributions, those additional revenues are used exclusively to pay down the pension liability. The pension system's actuary estimates the RRP will exceed the MMO by $30 million in fiscal 2020. If these practices continue, and if actuarial assumptions including the still-aggressive investment return assumptions are met, the city could stabilize or reduce its long-term liability burden and carrying cost over time.

The vast majority of city employees are unionized with most work terms established in multiyear contracts. Historically, labor relations have been somewhat contentious, with multiple recent contract negotiations ending in binding arbitration. Management retains very limited ability to alter contracts, but current wage and benefit terms are not a short-term threat to fiscal stability.

The current set of labor contracts reflects the challenges and the city's somewhat constrained flexibility. A 2016 agreement with the largest blue-collar union (AFSCME DC 33) included salary increases well within the city's fiscal capacity and a stacked hybrid pension plan that is mandatory for new hires and could reduce costs over the long term. More recent arbitration awards to the Fraternal Order of Police (FOP) and International Association of Fire Fighters (IAFF) included slightly more robust wage increases through fiscal 2020 and they do not reduce pension benefits for new employees. The awards do include increased employee pension contributions.

Contracts for essentially all of the city's unionized workforce and the school district's contract with the teachers union, expire at the end of fiscal 2020. The city's 27th five-year financial plan approved by PICA in 2018 includes a reserve for increased labor costs but Fitch anticipates actual needs could exceed the dedicated reserve, driving higher spending in future years. In its review of the five-year financial plan, PICA estimated new labor contracts with 2% wage increase assumptions could exhaust the reserve by 2022. Annual wage increases under the current contracts range from 2.5% to 3.75%.

Philadelphia's commitment to the school district represents an additional expenditure challenge point, particularly given the city's resumption of school district oversight in 2018 from the commonwealth's now-dissolved School Reform Commission. SDP faces its own significant challenges and relies heavily on the city for fiscal support. Philadelphia has historically contributed to the school district primarily via direct appropriations, sometimes supported by the imposition of new taxes or allocations of existing taxes.

Actions taken in the city's enacted fiscal 2019 budget illustrate the city's ongoing commitment to supporting SDP, and the implications for the city's fiscal flexibility. In fiscal 2019, the city's contribution to SDP increases approximately $77 million, or 73%, to $181 million. This contribution represents 4% of the city's general fund budget. While future increases are more modest (18% in fiscal 2020, 14% in fiscal 2021, 5.8% in fiscal 2022, and 1.2% in fiscal 2023) and SDP's fiscal position has improved, the district remains challenged. The pending expiration of the teachers' contract next fiscal year will add further pressure and could require additional city support. Unlike all other Pennsylvania school districts, SDP has no ability to set its own local tax policy and relies entirely on the commonwealth and city to approve its tax rates.

Long-Term Liability Burden
Philadelphia's long-term liability burden of approximately 20% of 2017 personal income is somewhat elevated but still in the moderate range relative to the city's resource base. Philadelphia has similar levels of debt (approximately $7 billion, including direct debt and overlapping debt of SDP) and Fitch-adjusted net pension liabilities (approximately $8 billion) for its primary single employer plan. The city maintains a separate single employer plan for Philadelphia Gas Works (PGW), an independently operated enterprise unit (revenue bonds BBB+/Stable) that Fitch does not include in our calculation of the city's long-term liability burden. At July 1, 2018, PGW reported an unfunded actuarial liability of approximately $215 million, or less than 1% of the city's 2017 personal income.

For the city's pension fund, the primary contributors to growth in the reported net pension liability in recent years were market underperformance (below actuarial assumptions) and recent actuarial changes to revise down the return assumption and implement findings from an experience study. The city's ongoing contribution of revenues above the actuarially determined contribution (ADC) could moderate the burden over the long term if actuarial assumptions are met, but Fitch anticipates the burden will remain sizable.

The city has contributed at least the ADC for many years, although Philadelphia did defer (and repay within five years as required when the commonwealth authorized the deferral) a portion of the statutorily required MMO in fiscal years 2010 and 2011. The pension liability was re-amortized several years ago over a closed 30-year term (ending in 2039), which reduced the annual cost. The re-amortization also included a shift to the more conservative level-dollar amortization method from the prior level percentage of payroll method.

Long-term debt has been managed very closely in recent years. Fitch's calculations for the city's outstanding debt includes Philadelphia's estimate for $15 million in annual capital lease payments and a $200 million projected bond issuance in 2026 for its police headquarters renovation project at 400 N. Broad Street.

The city does have variable-rate debt and swap exposure amounting to approximately 10% of its outstanding direct debt, but Fitch does not view it as a material rating concern.

Operating Performance
Philadelphia's reserves have increased notably in recent years, reaching levels not achieved since the Great Recession. While likely to decline somewhat over the next several years, the city projects reserves will remain at levels supportive of strong gap-closing capacity. The city's proposed 28th five-year plan included with the Mayor's executive budget for fiscal 2020, indicates the ending general fund balance portion of reserves will be drawn on over the next several years as the city addresses spending pressures including continued growth in pension contributions, labor costs in current contracts and in the next set of contracts, and growth in SDP contributions agreed to last year.

The projected fund balance draws also include the city's first contributions to a dedicated budget stabilization reserve (BSR, or rainy day fund) this year ($20 million) and next ($34 million) with another $38 million contribution projected for fiscal 2024. The reserve, established via city charter amendment in 2011, has never been funded. Charter restrictions limit its use to fiscal emergencies as declared by the city's finance director. The five-year plan also incorporates approximately $55 to $58 million annually as a "federal funding reserve" to offset potential losses in federal revenues. The city began including the reserve with its fiscal 2018 budget. To date, the city has not been required to tap into that annual budget allocation.

If the city is able to maintain overall reserves (available general fund balance and BSR) at or near currently projected levels and continue the enhanced budgetary management practices discussed further below, despite the spending pressures noted earlier, then Fitch could raise its assessment of the city's operating performance. Generally, in the event of a downturn, Fitch anticipates the city would draw on its reserves and also utilize its high budget flexibility with possible measures including halting currently planned reductions in wage and business income and receipts tax rates, headcount reductions and furloughs. Philadelphia took such steps during the Great Recession.

Close monitoring of fiscal performance by PICA, the state-appointed oversight board, provides further assurance the city would quickly address potential imbalances caused by economic downturns. The mayor submits annual five-year financial plans and quarterly intra-year updates to PICA. PICA must certify whether the plans resolve any projected deficits. If PICA certifies non-compliance, the city forfeits the PICA portion of the wage tax (more than $400 million in fiscal 2018 or approximately 10% of general fund revenues), providing strong incentive for the city to maintain long-term fiscal balance.

Philadelphia has an extensive statutory and policy-based framework for timely and proactive budget management throughout the economic cycle, revolving around PICA's reporting and certification requirements. The city's efforts to rebuild flexibility during periods of economic recovery remain somewhat inconsistent but have improved recently. Fund balances grew in the years following the Great Recession, then became more volatile in recent years, before strong increases of $74 million and $170 million in fiscal years 2017 and 2018.

The federal funding reserve included in the 2018 budget contributed to the sizable increase that year, as did robust tax revenue growth discussed below. Inclusion of the federal funding reserve in the five-year financial plans provides a modest annual budgetary cushion, and the BSR contributions in 2019, 2020, and 2024 would establish the city's first dedicated rainy day fund. Other steps include the one-time and ongoing supplemental pension contributions above the ADC noted above. Together, these measures indicate some improvement in the city's budgetary management and could support an improved assessment of the city's operating performance if they are maintained.

Philadelphia's liquidity improved considerably in fiscal 2018 with government-wide days cash reaching 76 days, from below 60 days in the past several years, reflecting the improvement in general fund ending balance. Fitch anticipates liquidity levels could weaken somewhat with the projected declines in general fund balance, we expect they will remain adequate for the city's fiscal needs given its high level of budget flexibility and close monitoring from PICA. Philadelphia has demonstrated clear and consistent market access, having issued tax and revenue anticipation notes virtually every year since fiscal 1972.

CURRENT DEVELOPMENTS

Philadelphia ended fiscal 2018 with a second consecutive general fund annual surplus on a GAAP basis ($211 million, or 5% of general fund spending) and on a budgetary basis ($153 million, or 3%

of spending). This well exceeds the enacted budget estimate of $75.5 million. Philadelphia's fiscal 2018 GAAP-basis, available general fund balance of $322 million represented 7% of general fund spending. The city reported a higher available general fund balance of $369 million (8% of general fund spending) on a budgetary basis.

The reported general fund balance is net of a $74.4 million supplemental pension contribution and additional funding for pay as you go capital spending. The lower GAAP basis number reflects an accounting change implemented by the city in fiscal 2002 regarding the business income and receipts tax. PICA and the city both utilize the budgetary basis for the certified five-year financial plans.

Strong tax revenue growth primarily drove performance in fiscal 2018. On a combined basis, the wage tax and the real estate transfer tax exceeded initial budget estimates by more than $160 million in fiscal 2018. Wage tax collections were up an estimated 6% to $1.5 billion versus a roughly 3% budgeted growth rate from fiscal 2017. The more volatile real estate transfer tax was even stronger, coming in at more than 26% growth to $313 million while the initial budget only anticipated $243 million. The city attributes the gains primarily to a growing economy, but notes that some of the growth may reflect one-time activity. For example, Comcast, one of the larger local private employers, distributed one-time bonuses to employees following enactment of the recent federal tax changes.

FISCAL 2019 REFLECTS ADDITIONAL SUPPORT TO SCHOOL DISTRICT

The enacted fiscal 2019 budget includes a significant package of approximately $600 million in increased funding for the coterminous SDP over the next five years. Enacted revenue measures to support the $600 million increase include a slower pace in planned reduction of the wage tax rate, an increase in the real estate transfer tax rate, and an increase in direct city grants to the school district. Even if the revenue measures fell short of expectations, Fitch anticipates the city would fulfill its additional commitments to SDP.

The tax increase and slow-down in the planned reduction in the wage tax rate somewhat limits the city's practical future revenue-raising flexibility. But education remains a key policy priority for the mayor and the new funding allows the school district to make significant progress in addressing a fund balance deficit estimated at $900 million over the next five years before the city's contributions. Stabilizing the fiscal position of the school district is likely to yield long-term positive economic and budgetary implications for the city.

PROJECTIONS INDICATE IMPROVED FISCAL RESILIENCE, AND FISCAL RISKS

In March, the Mayor released a fiscal 2020 executive budget and proposed 28th five-year financial plan through fiscal 2024. The plan incorporates higher spending for SDP as noted above, growth in pension costs, and reserves for new collective bargaining agreements and federal funding. The federal funding reserve level is consistent with prior years, and Fitch believes it provides valuable annual budgetary flexibility. In contrast, the labor reserve is likely to be inadequate to meet increased costs for new collective bargaining agreements, requiring proactive budgeting for the city to maintain projected reserve levels.

LEASE AND SERVICE FEE AGREEMENT OVERVIEW

Fitch considers the credit quality of Philadelphia's lease and service fee agreement bonds equivalent to the city's general credit quality as expressed in the IDR, given the lack of optionality for the city to annually appropriate for payments used for debt service. Prior to the issuance of each series of bonds, the city enters into a non-cancellable agreement with the issuing authority that has been approved by the City Council by ordinance. The agreements, all substantially similar in legal terms, require the city to appropriate annual lease rental or service fee payments from current revenues.

The City Council ordinance approving the agreements also requires the council to budget and appropriate these payments annually. The city's charter explicitly allows the council to authorize service agreements that extend beyond one year, and they are valid and binding commitments of the city. Commonwealth law also authorizes the city to make contracts for more than one year and states that it is "the duty of [city] council to make subsequent appropriations from year to year as required for the purposes of such contracts."

Fitch views the combination of the commonwealth statutory language, the city charter provision authorizing multiyear commitments, and the non-cancellable nature of the absolute and unconditional obligations set forth in the agreement approved by local ordinance as eliminating any optionality on the part of the city to appropriate required annual payments.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Additional information is available on www.fitchratings.com

San Francisco Mayor Sees PG&E Assets as a 'Great' Opportunity.

- **London Breed awaits feasibility study for possible takeover**
- **She also seeks tech industry's help to tap funds for homeless**

San Francisco Mayor London Breed wants to use PG&E Corp.'s bankruptcy to take over some of the company’s assets for the city’s power needs, a move that would shake up California’s largest utility and remake the state’s energy landscape.

Breed said she sees an opportunity to deliver clean power to her residents while keeping rates as low as possible. She’s awaiting the release of a study later this month that would outline the feasibility of assuming control of PG&E’s local infrastructure.

“I’m pretty excited about it, and I am hopeful that we are able to do it,” Breed said in an interview with Bloomberg News Wednesday at City Hall. “It could be great. It could be significant for the future of our city and for the future of renewable energy here.”

Breed’s remarks showed the potential for sweeping change at San Francisco-based PG&E, which filed for bankruptcy in January under the weight of an estimated $30 billion in liabilities from wildfires. The mayor spoke in a wide-ranging interview in which she also discussed the city’s homelessness crisis and appealed to companies to support her efforts to make use of a controversial tax to address it.

‘All In’

California leaders have been weighing ways to reshape the state’s utilities and their liabilities from wildfires in the wake of PG&E’s bankruptcy. Breed said she has been talking to the team of advisers assembled by Governor Gavin Newsom on the issue.

Newsom last week unveiled a range of options for the state to examine, including “municipalization” for PG&E if it didn’t change its behavior. Breed said Wednesday that one of her two nominees to the city’s Public Utilities Commission, which could help expedite decisions on a takeover, had worked to shut down a PG&E plant in her district as a city supervisor. The appointee, Sophie Maxwell, was “all in” when Breed started talking about the prospect of obtaining some of the utility’s assets, the mayor said.

San Francisco now runs a clean-power initiative that buys renewable energy and distributes it on PG&E poles and wires. Breed said that even before she was mayor, she believed PG&E had the resources and technology to make clean-energy changes at a quicker pace.

The city is on track to meet 80 percent of electricity demand under its program, the mayor’s office said. Its success is demonstrated by the low numbers of residents opting out, she said, which shows that taking over PG&E’s local system would be “just another layer.”

“We would be capable of doing it and doing it well,” Breed said.

She expects the feasibility study to tackle questions on what the city could acquire, and Breed said she would be sensitive to costs. “The goal is to do everything we can to not raise rates,” she said.

Any takeover attempt would face pushback from PG&E’s union workers, who “firmly and without hesitation oppose any efforts to municipalize any part of PG&E’s service territory, including San Francisco,” said Tom Dalzell, business manager for the local unit that represents 12,000 employees. Such public control could jeopardize jobs and pensions, the union said.

In a statement, PG&E said it supports customers’ ability to make choices on their energy use.

“PG&E regularly evaluates the way the company is structured strategically, operationally, and financially so that we are best positioned to operate efficiently and to provide safe and reliable service to our customers,” the company said.

Homeless Efforts

Beyond PG&E, Breed is grappling with a crisis of homelessness in one of the country's most affluent and expensive cities.

Voters in November approved a tax on businesses' gross receipts above $50 million to boost homeless services, but the legality of the measure is being challenged. The city's board of supervisors this week approved Breed's plan to give companies tax breaks if they waive their rights to refunds should the court rule the tax is invalid.

While she "hasn't heard a word from anyone just yet," Breed said she hopes companies such as Salesforce.com Inc. would participate. The company's co-chief executive officer, Marc Benioff, was a vocal supporter of the tax measure, called Proposition C.

"We plan to opt-in and we hope other companies will join us," Salesforce said in an emailed statement after the interview.

Breed plans an outreach to companies stressing the plans for the funds, such as additional shelter beds and mental health programs. "A lot of companies want us to solve this issue," she said. "I would say to them, 'Can you just support this?'"

Breed's plan for a 200-bed center for homeless people on the Embarcadero, near popular waterfront sites, has drawn outcry. She has since extended the time the facility would take to reach capacity and set the lease for a shorter time period. Twilio Inc., a maker of customer-communications software, is one of the companies based near the center. Twilio CEO Jeff Lawson and his employees have voiced support for the proposal, Breed said.

"I want to fix what I see is really the No. 1 problem in this city," Breed said. "And it involves doing things differently and things that unfortunately make us uncomfortable."

Google.org, the tech giant's charitable arm, donated $3 million toward construction of another 84-bed residential facility at Fifth and Bryant streets in San Francisco.

Another issue Breed is tackling is reform of the city's juvenile justice system. Some members of San Francisco's board of supervisors are pushing to close juvenile hall by the end of 2021. Breed has formed a panel to explore alternatives. The panel "is a more responsible way to approach the situation," she said. "There could be a better way to re-envision or re-purpose it."

Bloomberg Politics

By Romy Varghese

April 18, 2019, 5:00 AM PDT Updated on April 18, 2019, 1:56 PM PDT

— With assistance by Mark Chediak

[California to Finally Tackle Inverse Condemnation Reform for Wildfires? - Nossaman]()

In Governor Gavin Newsom's first [State of the State address](), he called for the creation of a strike force charged with developing a comprehensive strategy to address the destabilizing effect of catastrophic wildfires on the State. On April 12, 2019, Governor Newsom announced the results of that dedicated effort, in the form of a report titled "Wildfires and Climate Change: California's Energy Future" ("Strike Force Report"). Governor Newsom also summarized the findings of the Strike Force Report in a press conference that can be viewed here.

The Strike Force Report first sets out steps the State must take to reduce the incidence and severity of wildfires, including the significant wildfire mitigation and resiliency efforts the Governor has previously proposed. Recognizing that climate change is a core driver of heightened wildfire risk, the Strike Force Report also outlines the Governor's vision for clean energy policies to reduce the impacts of climate change on wildfire risk. The Strike Force Report concludes that wildfires are an issue that must be tackled by numerous stakeholders, including the State, local agencies, and private property owners, to address a variety of contributors to wildfires, including improving vegetation management and fire suppression, incentivizing private owners to mitigate risks, building safer communities and stricter land use controls, and improving emergency response.

With respect to a potential change in the law, the Strike Force Report suggests that shareholders (not customers) should continue to be responsible where a utility fails to operate safely, but otherwise, "[a]ny real plan must allocate costs resulting from wildfires in a manner that shares the burden broadly among stakeholders including utilities (ratepayers and investors), insurance companies, local governments, and attorneys." The Strike Force Report also provides a brief overview of California's unique doctrine of inverse condemnation and notes that the combination of strict liability and statutory attorney's fees exposes California utilities to significant potential liability which needs to be more broadly apportioned.

The Strike Force Report identifies three concepts to address catastrophic wildfire risk, which are proposed for further consideration and development:

1. **Liquidity-Only Fund.** This concept would (i) create a fund to provide liquidity for utilities to pay wildfire damage claims pending a California Public Utilities Commission ("CPUC") determination of whether or not those claims are appropriate for cost recovery, and (ii) potentially broaden utilities' ability to recover wildfire-related costs from ratepayers. The liquidity-only fund could be capitalized by utility investors and ratepayers and would then be available to provide funds for utilities to pay claims after a determination of cause and before a determination of cost recovery by the CPUC. The idea here is to provide financing to bridge the potentially lengthy gap between the time utilities must pay wildfire liability claims and when the CPUC makes a decision on cost recovery.
2. **Changing Strict Liability to a Fault-Based Standard.** This concept would involve modification of California's strict liability standard under inverse condemnation to one based on fault to balance the need for public improvements with private harm to individuals. The Strike Force Report argues that moving to a fault-based standard for inverse condemnation claims would shift the risk of property loss to insurance companies and uninsured or underinsured property owners in cases where the utility was not a bad actor. However, where the utility acted negligently, recklessly, or with intentional misconduct, it would still be responsible for paying damages, including possible punitive damages. Notably, the Strike Force Report does not outline what such a law would look like or how such a change would be accomplished, although Governor Newsom hinted at addressing wildfire liability under the "common enemy doctrine," which has typically been limited to inverse condemnation flooding claims against flood control districts. Governor Brown's original proposed legislation that ultimately became Senate Bill 901 (Dodd, 2018) ("SB 901") last year had a somewhat similar concept to move away from the strict liability standard for wildfire-related inverse condemnation claims, but there was significant push-back and the

concept was ultimately abandoned. There are also questions about whether such legislation would be constitutional without going through the process of a constitutional amendment.

3. **Wildfire Fund.** This concept would create a wildfire fund coupled with a revised cost recovery standard to spread the cost of catastrophic wildfires more broadly among stakeholders. The Strike Force Report explains that the wildfire fund would create a buffer to absorb a significant portion of the wildfire liability costs that might otherwise be passed on to ratepayers under existing law while providing time for mitigation efforts to be advanced. The wildfire fund would also provide the utilities a source of immediate funding for the claims asserted against them for catastrophic wildfire damages, and would ensure prompt payment of those claims in exchange for a cap on recovery by impacted property owners or their insurers. As proposed in the Strike Force Report, the wildfire fund would include pooled capital from investor-owned electrical utilities, and municipally-owned utilities may participate at their option.

Additionally, the Strike Force Report argues that the current structure of the CPUC does not allow it to effectively address wildfire safety and be nimble in today's changing energy market. Therefore, the Strike Force Report proposes the following recommendations aimed at strengthening utility regulation at the CPUC:

1. **Expand safety expertise** by improving the CPUC's ability to review wildfire mitigation plans, conduct inspections and audits, and enforce safety standards at investor-owned utilities.
2. **Clarify cost recovery standards** by setting clear guidelines for when utilities can pass on the costs of claims from wildfire damage to ratepayers.
3. **Improve decision-making** by overhauling procedures, delegating more decisions to technical staff so that judges and commissioners focus on core questions of rate-setting, and improving enforcement.
4. **Review high-risk industry regulatory models** and explore options for incorporating the latest climate impact research, in concert with the Governor's Office of Planning & Research, as well as academic and industry experts in risk reduction.

In parallel with the Governor's strike force, the Commission on Catastrophic Wildfire Cost and Recovery, has also been analyzing issues relating to catastrophic wildfires and is expected to build upon the Strike Force Report and issue its own set of recommendations to the Governor and the Legislature by July 1, 2019. The Commission on Catastrophic Wildfire Cost and Recovery was established last year in SB 901 and recently put out a Request for Comment on various wildfire-related topics in advance of its upcoming April 29, 2019 meeting.

The Strike Force Report announces several immediate next steps across a broad range of state agencies, reflecting the far-reaching consequences of catastrophic wildfires. The Commission on Catastrophic Wildfire Cost and Recovery, the Legislature, and the Governor's strike force will continue working over the next few months to develop a solution for consideration by the Governor and the Legislature that most effectively addresses wildfire liability.

California Eminent Domain Report

by Bradford B. Kuhn

April 17 2019

Nossaman LLP

San Francisco Might Divorce PG&E But Not Wildfire Costs.

Taking over its power grid wouldn't insulate the city from risk.

San Francisco works hard to shake off its stereotype of existing in a bubble. OK, not that hard.

Now it's thinking of extending that splendid isolation to how it gets its power. Mayor London Breed said in an interview with Bloomberg News that she's "pretty excited" at the prospect of the city taking over its local grid from bankrupt utility PG&E Corp. A feasibility study is due later this month — and it's not the first one, either. San Francisco has been considering taking its grid out of PG&E's hands, off and on, since at least the 1990s.

Yet, as much as taking over the grid would scratch that particular itch, forming the San Francisco Electric Co. would risk creating losers all around.

It is easy to see why San Francisco is tempted. PG&E's reputation has been trashed; look no further than this tidbit from the recent report issued by Governor Gavin Newsom's wildfire "strike force":

Continue reading.

Bloomberg Business

By Liam Denning

April 18, 2019, 10:21 AM PDT

Fitch Rates Philadelphia, PA's GOs 'A-'; Outlook Revised to Positive.

Fitch Ratings-New York-19 April 2019: Fitch Ratings has assigned an 'A-' rating to the city of Philadelphia, Pennsylvania's $179.69 million general obligation (GO) refunding bonds, series 2019A.

The bonds are expected to sell through a negotiated sale on or about April 30, 2019. Proceeds will refund certain outstanding GO bonds of the city.

Fitch has also affirmed the following ratings at 'A-':

–$157.6 million Philadelphia Municipal Authority (PMA) bonds;
–$1.9 billion Philadelphia Authority for Industrial Development (PAID) bonds;
–$206.5 million Philadelphia Redevelopment Authority (PRA) bonds;
–$10.9 million Philadelphia Parking Authority (PPA) parking system revenue bonds, series 1999A;
–Philadelphia's Issuer Default Rating (IDR);
–$1.5 billion Philadelphia GO bonds.

The Rating Outlook is revised to Positive from Stable.

SECURITY
GO bonds are backed by the city's full faith and credit and are payable from an ad valorem tax without limitation as to rate or amount

The bonds issued by PMA, PAID, PRA, and PPA are payable from annual service fee or lease rental payments by the city under non-cancellable agreements. The city's obligation to make payments is absolute and unconditional. State law and the city charter obligate the city council to appropriate annual payments through final maturity, and Fitch rates these on par with the city's GO bonds and IDR given the lack of optionality.

ANALYTICAL CONCLUSION

The Outlook revision to Positive reflects gains in Philadelphia's operating performance and overall flexibility, which could support a higher rating if the city is able to consolidate those improvements as spending pressure ramps up, including for pension costs, new labor contracts, and the school district.

Philadelphia's 'A-' IDR reflects its strong economic base and solid revenue growth prospects, offset by expenditure constraints and reserves which had been fairly modest until very recently. The long-term liability burden is somewhat elevated but well within the capacity of the city's resource base. A comparatively constrained expenditure framework pressures the budget, but solid economic and revenue growth and careful budget monitoring should support spending demands. Long-term forecasting, active fiscal management, and close oversight from a state board provide important support for the city's financial resilience.

The 'A-' ratings on lease and service fee agreement bonds issued by various authorities for the city, as well as the PPA series 1999A parking system revenue bonds, reflect the lack of optionality for appropriation embedded in these commitments by city ordinance, the city's charter and state law.

Economic Resource Base
Philadelphia serves as a regional economic center in the Northeast, with a stable employment base weighted toward the higher education and healthcare sectors. Jobs expansion since the Great Recession has been steady and strong, but comparatively low wealth levels and modest population increases persist, limiting growth prospects. The population is approximately 1.6 million.

KEY RATING DRIVERS

Revenue Framework: 'aa'
The income, property and sales taxes that are Philadelphia's primary revenue sources will likely grow ahead of inflation but below national GDP given economic prospects, absent policy action. Philadelphia retains essentially unlimited independent legal ability to raise revenues.

Expenditure Framework: 'a'
Philadelphia's recent expenditure growth has been measured, reflecting ongoing budgetary control efforts. The city faces persistent fixed-cost growth pressures with limited flexibility regarding labor expenses given a highly unionized workforce and a statutorily-defined collective bargaining framework. The future trajectory of spending growth will likely exceed baseline revenue growth, requiring continued proactive budgeting.

Long-Term Liability Burden: 'a'
Long-term liabilities are somewhat elevated but still in the moderate range relative to Philadelphia's resource base.

Operating Performance: 'bbb'
Recent gains in the city's ability to respond to changing fiscal circumstances, including higher reserves, reflect improved budgetary management practices and robust revenue growth. In the

event of a downturn, Fitch anticipates the city would address fiscal stress with its available tools, including some use of reserves, and continue its demonstrated ability to gradually recover financial flexibility.

RATING SENSITIVITIES
SUSTAINED IMPROVEMENT IN FINANCIAL FLEXIBILITY: The city has made recent progress in enhancing fiscal resilience and its budgetary management, benefiting from a long economic expansion and strong tax revenue growth. Indications that these gains reflect sustainable improvements in the city's fundamental financial flexibility, such as achieving projected reserve levels over the next one to two years and maintaining the federal funding reserve cushion, would support an upgrade. Our view of the city's current operating performance is tempered by Philadelphia's significant budgetary stress following the Great Recession and somewhat inconsistent progress in restoring financial flexibility since then.

MANAGEMENT OF EXPENDITURE PRESSURES: One potential hurdle for the city will be expenditure challenges. Philadelphia faces notable expenditure pressures over the next several years including for contracts for a mostly unionized workforce which expire at the end of fiscal 2020, demands for increased funding for the school district that is now under city control, and retirement benefit costs. The city has taken steps to mitigate these risks including a labor reserve, a multi-year commitment to increase appropriations to the school district and supplemental pension contributions, all of which are built into the city's five-year financial plans. An upgrade will be contingent on the city's ability to manage that growth while consolidating the recent improvements in overall financial flexibility.

CREDIT PROFILE

Revenue Framework
Philadelphia has a diverse revenue base, with a wage tax, business income and receipts taxes, a property tax and a sales tax, each generating a significant portion of local revenues. The wage and earnings tax (essentially an individual income tax without a capital gains component) accounts for more than one-third of general fund revenues. A tax on net profits of businesses within the city generates a much smaller share of revenues and is often reported with the wage and earnings tax.

The city also receives transfers from the Pennsylvania Intergovernmental Cooperation Authority (PICA) of a 1.5% tax on wages, earnings and net profits, net of deductions for debt service on PICA revenue bonds. Including the PICA transfer, the total revenues derived from wage, earnings and net profits taxes make up approximately one-half of general fund revenues. The other key revenue sources make up another one-third of general fund revenues.

Historically, the wage and earnings tax (also referred to as the wage tax) has proven relatively resilient with limited declines. For well over a decade, the city has been gradually reducing rates to enhance the city's economic competitiveness. The wage tax is levied on both residents and non-residents working within Philadelphia (and on residents working outside the city), thereby capturing higher wealth levels in surrounding suburbs and offsetting Philadelphia's high poverty rate.

Property taxes have shown little volatility throughout economic cycles as well, with more robust growth in recent years attributable to the strong real estate market and the city's continued position as a regional economic center. Other tax revenues have been more volatile, due mainly to policy changes at the city and commonwealth levels.

Historical general fund revenue growth, after adjusting for a significant accounting change, has been robust. However, the growth also reflects tax policy changes including both rate increases and decreases. The city shifted certain federal and commonwealth grants from the general fund to the grants revenue fund beginning in fiscal 2012; these grants averaged $469 million between fiscal years 1999 and 2011, or roughly 10% to 15% of general fund revenues. Management provided Fitch with detailed breakouts of the revenues from prior years, which allowed Fitch to adjust general fund revenues to a like-for-like basis by removing the affected revenues in earlier years.

Fitch anticipates solid general fund revenue growth, absent future policy actions, ahead of inflation but somewhat below national economic growth. Significant policy changes implemented by the city include small but regular rate reductions in the wage tax (except for three years around the Great Recession, when the city held rates steady), restructuring of the business income and receipts tax, and sales tax rate changes authorized by the commonwealth.

Philadelphia maintains ample independent legal authority to adjust revenues, other than the sales tax, under provisions of Pennsylvania's Sterling Act. The city has regularly utilized that ability to adjust wage, business income and receipts, and property taxes to improve Philadelphia's economic competitiveness or provide additional budgetary flexibility.

The Philadelphia beverage tax (PBT) is levied on the distribution of certain beverages at 1.5 cents per ounce. Proceeds are funding specific policy initiatives, including expanded pre-kindergarten. PBT revenue has fallen short of expectations. The city continues to moderate spending on related initiatives to reflect lower receipts. Fiscal 2018 collections were just under $80 million, or a modest approximately 2% of general fund revenues.

Expenditure Framework
Philadelphia pays for a wide range of public services, but public safety represents the largest expenditure category (about one-half of spending), as with many local governments. The city does not directly pay for education but does support the coterminous School District of Philadelphia (SDP, IDR BB-/Stable) with direct appropriations and through other policy measures such as statutory allocations of specific taxes.

In recent years, the city issued short-term bonds to finance an SDP operating deficit, and the commonwealth Legislature permanently redirected part of an increase in the city's local sales tax levy to the district. The commonwealth originally authorized the increased levy (to 2% from 1%) effective in fiscal 2010 as a temporary measure and directed it to the city's pension contributions. Effective in fiscal 2015, the commonwealth made the increase permanent and designated a fixed portion for the school district and any excess to the city's pension system.

Spending growth absent policy actions will likely exceed projected natural revenue growth due to a high demand for services (particularly given the city's low wealth levels), moderating yet persistent growth in pension and other labor costs, and increased support for SDP.

Philadelphia has adequate expenditure flexibility with a moderate carrying cost burden for debt service and post-retirement benefit costs (approximately 14% in fiscal 2018) but a constraining workforce environment. Pension costs have escalated sharply in recent years due partially to actuarial adjustments to revise down the investment return assumption (to a still somewhat aggressive 7.55% for the fiscal year 2020 contribution calculation) and apply findings from the 2016 actuarial experience study. The pension board has lowered the investment return assumption steadily from 8.75% for the fiscal 2008 contribution and intends to continue reducing the rate in future years.

Pension contributions growth remains a pressure point. To help mitigate this, the city consistently directs any new and otherwise unallocated revenues to the pension fund. For fiscal 2019, a statutorily-required (at the commonwealth) allocation from the city’s sales tax to pay down the pension liability increases by approximately $15 million as debt service on the short-term bonds for SDP rolls off with bond maturity, rising to $45.2 million. The city also allocated $74.4 million from the fiscal 2018 ending general fund balance, which was $140 million higher than budgeted, to the pension system.

In addition, since fiscal 2018, the city is contributing using a revenue recognition policy (RRP) that leads to contributions above the statutorily required minimum municipal obligation (MMO), which is essentially the actuarially determined contribution (ADC). The RRP excludes the sales tax contributions and certain recently collectively-bargained increases in employee contributions when calculating the city’s annual pension contributions. Therefore, instead of reducing annual contributions, those additional revenues are used exclusively to pay down the pension liability. The pension system’s actuary estimates the RRP will exceed the MMO by $30 million in fiscal 2020. If these practices continue, and if actuarial assumptions including the still-aggressive investment return assumptions are met, the city could stabilize or reduce its long-term liability burden and carrying cost over time.

The vast majority of city employees are unionized with most work terms established in multiyear contracts. Historically, labor relations have been somewhat contentious, with multiple recent contract negotiations ending in binding arbitration. Management retains very limited ability to alter contracts, but current wage and benefit terms are not a short-term threat to fiscal stability.

The current set of labor contracts reflects the challenges and the city’s somewhat constrained flexibility. A 2016 agreement with the largest blue-collar union (AFSCME DC 33) included salary increases well within the city’s fiscal capacity and a stacked hybrid pension plan that is mandatory for new hires and could reduce costs over the long term. More recent arbitration awards to the Fraternal Order of Police (FOP) and International Association of Fire Fighters (IAFF) included slightly more robust wage increases through fiscal 2020 and they do not reduce pension benefits for new employees. The awards do include increased employee pension contributions.

Contracts for essentially all of the city’s unionized workforce and the school district’s contract with the teachers union, expire at the end of fiscal 2020. The city’s 27th five-year financial plan approved by PICA in 2018 includes a reserve for increased labor costs but Fitch anticipates actual needs could exceed the dedicated reserve, driving higher spending in future years. In its review of the five-year financial plan, PICA estimated new labor contracts with 2% wage increase assumptions could exhaust the reserve by 2022. Annual wage increases under the current contracts range from 2.5% to 3.75%.

Philadelphia’s commitment to the school district represents an additional expenditure challenge point, particularly given the city’s resumption of school district oversight in 2018 from the commonwealth’s now-dissolved School Reform Commission. SDP faces its own significant challenges and relies heavily on the city for fiscal support. Philadelphia has historically contributed to the school district primarily via direct appropriations, sometimes supported by the imposition of new taxes or allocations of existing taxes.

Actions taken in the city’s enacted fiscal 2019 budget illustrate the city’s ongoing commitment to supporting SDP, and the implications for the city’s fiscal flexibility. In fiscal 2019, the city’s contribution to SDP increases approximately $77 million, or 73%, to $181 million. This contribution represents 4% of the city’s general fund budget. While future increases are more modest (18% in fiscal 2020, 14% in fiscal 2021, 5.8% in fiscal 2022, and 1.2% in fiscal 2023) and SDP’s fiscal position has improved, the district remains challenged. The pending expiration of the teachers’ contract next fiscal year will add further pressure and could require additional city support. Unlike all other Pennsylvania school districts, SDP has no ability to set its own local tax policy and relies entirely on the commonwealth and city to approve its tax rates.

Long-Term Liability Burden

Philadelphia’s long-term liability burden of approximately 20% of 2017 personal income is somewhat elevated but still in the moderate range relative to the city’s resource base. Philadelphia has similar levels of debt (approximately $7 billion, including direct debt and overlapping debt of SDP) and Fitch-adjusted net pension liabilities (approximately $8 billion) for its primary single employer plan. The city maintains a separate single employer plan for Philadelphia Gas Works (PGW), an independently operated enterprise unit (revenue bonds BBB+/Stable) that Fitch does not include in our calculation of the city’s long-term liability burden. At July 1, 2018, PGW reported an unfunded actuarial liability of approximately $215 million, or less than 1% of the city’s 2017 personal income.

For the city’s pension fund, the primary contributors to growth in the reported net pension liability in recent years were market underperformance (below actuarial assumptions) and recent actuarial changes to revise down the return assumption and implement findings from an experience study. The city’s ongoing contribution of revenues above the actuarially determined contribution (ADC) could moderate the burden over the long term if actuarial assumptions are met, but Fitch anticipates the burden will remain sizable.

The city has contributed at least the ADC for many years, although Philadelphia did defer (and repay within five years as required when the commonwealth authorized the deferral) a portion of the statutorily required MMO in fiscal years 2010 and 2011. The pension liability was re-amortized several years ago over a closed 30-year term (ending in 2039), which reduced the annual cost. The re-amortization also included a shift to the more conservative level-dollar amortization method from the prior level percentage of payroll method.

Long-term debt has been managed very closely in recent years. Fitch’s calculations for the city’s outstanding debt includes Philadelphia’s estimate for $15 million in annual capital lease payments and a $200 million projected bond issuance in 2026 for its police headquarters renovation project at 400 N. Broad Street.

The city does have variable-rate debt and swap exposure amounting to approximately 10% of its outstanding direct debt, but Fitch does not view it as a material rating concern.

Operating Performance

Philadelphia’s reserves have increased notably in recent years, reaching levels not achieved since the Great Recession. While likely to decline somewhat over the next several years, the city projects reserves will remain at levels supportive of strong gap-closing capacity. The city’s proposed 28th five-year plan included with the Mayor’s executive budget for fiscal 2020, indicates the ending general fund balance portion of reserves will be drawn on over the next several years as the city addresses spending pressures including continued growth in pension contributions, labor costs in current contracts and in the next set of contracts, and growth in SDP contributions agreed to last year.

The projected fund balance draws also include the city’s first contributions to a dedicated budget stabilization reserve (BSR, or rainy day fund) this year ($20 million) and next ($34 million) with another $38 million contribution projected for fiscal 2024. The reserve, established via city charter amendment in 2011, has never been funded. Charter restrictions limit its use to fiscal emergencies as declared by the city’s finance director. The five-year plan also incorporates approximately $55 to $58 million annually as a “federal funding reserve” to offset potential losses in federal revenues. The city began including the reserve with its fiscal 2018 budget. To date, the city has not been required to tap into that annual budget allocation.

If the city is able to maintain overall reserves (available general fund balance and BSR) at or near currently projected levels and continue the enhanced budgetary management practices discussed further below, despite the spending pressures noted earlier, then Fitch could raise its assessment of the city's operating performance. Generally, in the event of a downturn, Fitch anticipates the city would draw on its reserves and also utilize its high budget flexibility with possible measures including halting currently planned reductions in wage and business income and receipts tax rates, headcount reductions and furloughs. Philadelphia took such steps during the Great Recession.

Close monitoring of fiscal performance by PICA, the state-appointed oversight board, provides further assurance the city would quickly address potential imbalances caused by economic downturns. The mayor submits annual five-year financial plans and quarterly intra-year updates to PICA. PICA must certify whether the plans resolve any projected deficits. If PICA certifies non-compliance, the city forfeits the PICA portion of the wage tax (more than $400 million in fiscal 2018 or approximately 10% of general fund revenues), providing strong incentive for the city to maintain long-term fiscal balance.

Philadelphia has an extensive statutory and policy-based framework for timely and proactive budget management throughout the economic cycle, revolving around PICA's reporting and certification requirements. The city's efforts to rebuild flexibility during periods of economic recovery remain somewhat inconsistent but have improved recently. Fund balances grew in the years following the Great Recession, then became more volatile in recent years, before strong increases of $74 million and $170 million in fiscal years 2017 and 2018.

The federal funding reserve included in the 2018 budget contributed to the sizable increase that year, as did robust tax revenue growth discussed below. Inclusion of the federal funding reserve in the five-year financial plans provides a modest annual budgetary cushion, and the BSR contributions in 2019, 2020, and 2024 would establish the city's first dedicated rainy day fund. Other steps include the one-time and ongoing supplemental pension contributions above the ADC noted above. Together, these measures indicate some improvement in the city's budgetary management and could support an improved assessment of the city's operating performance if they are maintained.

Philadelphia's liquidity improved considerably in fiscal 2018 with government-wide days cash reaching 76 days, from below 60 days in the past several years, reflecting the improvement in general fund ending balance. Fitch anticipates liquidity levels could weaken somewhat with the projected declines in general fund balance, we expect they will remain adequate for the city's fiscal needs given its high level of budget flexibility and close monitoring from PICA. Philadelphia has demonstrated clear and consistent market access, having issued tax and revenue anticipation notes virtually every year since fiscal 1972.

CURRENT DEVELOPMENTS

Philadelphia ended fiscal 2018 with a second consecutive general fund annual surplus on a GAAP basis ($211 million, or 5% of general fund spending) and on a budgetary basis ($153 million, or 3% of spending). This well exceeds the enacted budget estimate of $75.5 million. Philadelphia's fiscal 2018 GAAP-basis, available general fund balance of $322 million represented 7% of general fund spending. The city reported a higher available general fund balance of $369 million (8% of general fund spending) on a budgetary basis.

The reported general fund balance is net of a $74.4 million supplemental pension contribution and additional funding for pay as you go capital spending. The lower GAAP basis number reflects an accounting change implemented by the city in fiscal 2002 regarding the business income and receipts tax. PICA and the city both utilize the budgetary basis for the certified five-year financial plans.

Strong tax revenue growth primarily drove performance in fiscal 2018. On a combined basis, the wage tax and the real estate transfer tax exceeded initial budget estimates by more than $160 million in fiscal 2018. Wage tax collections were up an estimated 6% to $1.5 billion versus a roughly 3% budgeted growth rate from fiscal 2017. The more volatile real estate transfer tax was even stronger, coming in at more than 26% growth to $313 million while the initial budget only anticipated $243 million. The city attributes the gains primarily to a growing economy, but notes that some of the growth may reflect one-time activity. For example, Comcast, one of the larger local private employers, distributed one-time bonuses to employees following enactment of the recent federal tax changes.

FISCAL 2019 REFLECTS ADDITIONAL SUPPORT TO SCHOOL DISTRICT

The enacted fiscal 2019 budget includes a significant package of approximately $600 million in increased funding for the coterminous SDP over the next five years. Enacted revenue measures to support the $600 million increase include a slower pace in planned reduction of the wage tax rate, an increase in the real estate transfer tax rate, and an increase in direct city grants to the school district. Even if the revenue measures fell short of expectations, Fitch anticipates the city would fulfill its additional commitments to SDP.

The tax increase and slow-down in the planned reduction in the wage tax rate somewhat limits the city’s practical future revenue-raising flexibility. But education remains a key policy priority for the mayor and the new funding allows the school district to make significant progress in addressing a fund balance deficit estimated at $900 million over the next five years before the city’s contributions. Stabilizing the fiscal position of the school district is likely to yield long-term positive economic and budgetary implications for the city.

PROJECTIONS INDICATE IMPROVED FISCAL RESILIENCE, AND FISCAL RISKS

In March, the Mayor released a fiscal 2020 executive budget and proposed 28th five-year financial plan through fiscal 2024. The plan incorporates higher spending for SDP as noted above, growth in pension costs, and reserves for new collective bargaining agreements and federal funding. The federal funding reserve level is consistent with prior years, and Fitch believes it provides valuable annual budgetary flexibility. In contrast, the labor reserve is likely to be inadequate to meet increased costs for new collective bargaining agreements, requiring proactive budgeting for the city to maintain projected reserve levels.

LEASE AND SERVICE FEE AGREEMENT OVERVIEW

Fitch considers the credit quality of Philadelphia’s lease and service fee agreement bonds equivalent to the city’s general credit quality as expressed in the IDR, given the lack of optionality for the city to annually appropriate for payments used for debt service. Prior to the issuance of each series of bonds, the city enters into a non-cancellable agreement with the issuing authority that has been approved by the City Council by ordinance. The agreements, all substantially similar in legal terms, require the city to appropriate annual lease rental or service fee payments from current revenues.

The City Council ordinance approving the agreements also requires the council to budget and appropriate these payments annually. The city’s charter explicitly allows the council to authorize service agreements that extend beyond one year, and they are valid and binding commitments of the city. Commonwealth law also authorizes the city to make contracts for more than one year and states that it is "the duty of [city] council to make subsequent appropriations from year to year as required for the purposes of such contracts."

Fitch views the combination of the commonwealth statutory language, the city charter provision authorizing multiyear commitments, and the non-cancellable nature of the absolute and unconditional obligations set forth in the agreement approved by local ordinance as eliminating any optionality on the part of the city to appropriate required annual payments.

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S&P State Brief: West Virginia

West Virginia's fiscal 2019 revised estimates indicate general fund revenues will increase by $362.6 million over fiscal 2018 revenues, or more than 8.5%, to $4.6 billion. The state used the increased revenue estimates to fund supplemental appropriations in the amount of $194 million.

Continue Reading

Apr. 8, 2019

The Hidden Horror of Hudson Yards Is How It Was Financed.

Manhattan's new luxury mega-project was partially bankrolled by an investor visa program called EB-5, which was meant to help poverty-stricken areas.

Since its official unveiling last month, critics have been teeing off on Hudson Yards, the $25 billion office-and-apartment megaproject on Manhattan's West Side. The Guardian's Oliver Wainwright calls it "bargain-basement building-by-the-yard stuff that would feel more at home in the second-tier city of a developing economy." In Curbed, Alexandra Lange writes that it suffers from "no contrast. No weirdness, no wildness, nothing off book." The New York Times' Michael Kimmelman describes it as a "vast neoliberal Zion."

"New York politics and real estate are notoriously akin to Rashomon," reads Kimmelman's review. "Any verdict on an undertaking as costly and complex as Hudson Yards depends on one's perspective."

Continue reading.

CITYLABS

KRISTON CAPPS APR 12, 2019

California Is Set to Help PG&E and Maybe, Possibly, Take It Over.

Sure, California looks like it's ready to help power giant PG&E Corp. deal with a multibillion-dollar wildfire problem that has already forced the utility into bankruptcy.

But Gavin Newsom, governor of the Golden State, also wants it known: If PG&E continues to be "bad actors" and "misdirect and mislead the people" of California, he isn't afraid of a government takeover. Newsom said that, in a report he issued Friday that outlines ways which the state could help utilities pay for their wildfire costs, "there is a word that drives shivers up people's spines: It's called municipalization." And, he added, "If they don't get it done. We will get it done."

Newsom has already expressed his displeasure with a board overhaul that PG&E announced last week, saying the slate consists of too many Wall Street interests and lacks experience.

"I've been very concerned about their picks on their board directors, and I just want to folks to know we are watching," he said. "I expect the investors that are involved in PG&E to participate in the solutions" and "get serious about grid enhancements, hardening their infrastructure and modernizing their strategies."

Bloomberg Deals

By Michael B Marois and Mark Chediak

April 12, 2019, 12:59 PM PDT

— With assistance by Joe Ryan

PG&E Caps Best Day Since Going Bankrupt as California Offers Help.

- **Governor's report includes option of fund to help utilities**
- **Legislature asked to act on liability problem by July 12**

California Governor Gavin Newsom gave legislators just three months to address a multibillion-dollar wildfire liability problem that has forced the state's largest power company, PG&E Corp., into bankruptcy and threatens the same fate for its other utilities.

The governor issued a report Friday outlining possible solutions for how costs for destructive wildfires will be covered — including a possible fund that utilities can tap into — that sent the clearest signal yet that the state will move to keep its power companies solvent. He called for legislation to be passed before lawmakers take a month-long summer recess on July 12, sending shares of PG&E and its peers soaring.

The wide-ranging report gave Wall Street optimism that California will work with utilities to solve an intractable problem: who pays for wildfires as climate change threatens to make them deadlier and more frequent. Now, the task of developing a concrete approach falls to lawmakers, who need to work quickly as another fire season nears.

Continue reading.

Bloomberg Markets

By Mark Chediak, Romy Varghese, and Michael B Marois

April 12, 2019, 11:00 AM PDT Updated on April 12, 2019, 7:10 PM PDT

California Governor Seeks to Protect Utilities From the Cost of Wildfires.

Gov. Gavin Newsom of California said one solution to protect utilities would be for the state to create two funds to pay for the damage caused by wildfires.

With another wildfire season looming, Gov. Gavin Newsom of California on Friday urged the state Legislature to help Pacific Gas & Electric and other utilities bear the cost of fires started by their equipment.

Mr. Newsom's announcement came in response to PG&E's bankruptcy filing in January, which has raised difficult questions about who should pay for the billions of dollars in damage caused by wildfires and how California could reduce the frequency and severity of those fires.

"If we don't begin to try and manifest the ideas in this report, our future is not very bright," Mr. Newsom said after releasing a document that outlined several proposals in general terms without providing many hard details.

Utility equipment has caused many of California's deadliest recent wildfires, but PG&E's bankruptcy shows that these companies may not be able to bear those costs. In PG&E's case, those costs could total an estimated $30 billion for fires in 2018 and 2017. If more utilities have to file for bankruptcy because of such expenses, California may not be able to to meet its ambitious clean energy goals.

One solution, Mr. Newsom said on Friday, would be for the state to create two funds to pay for the damage caused by wildfires. The report issued by his office said these funds could disburse payments to homeowners and businesses who lost property in wildfires more quickly than the utilities could.

But it is unclear whether Mr. Newsom's funds would be large enough to address the problem. The governor did not say how much money the funds should have at their disposal and whether

California would back them with taxpayer funds. His report said one fund, referred to as the "liquidity only" fund, could be financed by ratepayers and utility investors. The other pool of money, the wildfire fund, could get capital from California's three main investor-owned utilities, as well as some municipally owned utilities.

But those proposals could face resistance from some lawmakers, consumer groups and victims of wildfires. Some of those groups are likely to oppose legislation that shields the utilities from liability while potentially exposing taxpayers and ratepayers to billions of dollars in costs.

PG&E's stock closed up more than 20 percent on Friday, a sign that investors believe that Mr. Newsom's proposals would protect the investment of its shareholders.

The company welcomed the governor's report in a statement. "We appreciate the important and timely work of the governor's strike force," PG&E said.

Mr. Newsom acknowledged that his plan would require sacrifices, and said they were necessary because wildfires were becoming more common and destructive because of climate change. "We all have a burden and a responsibility to assume the costs," he said.

The breadth of the plan impressed scholars who work on the financial costs of catastrophes. "They've teed up a number of policy options that, with some refinement and development, would be useful," said Carolyn Kousky, executive director of the Wharton Risk Center. "But I think they need some more details there."

One of the most contentious parts of the governor's report says the state should seek to change a California legal provision that holds utilities liable for damages if their equipment causes a wildfire even if the companies did not act negligently. The plan says utilities should be held liable only if they have acted improperly, like not trimming trees or replacing aging equipment. Mr. Newsom said the state could petition the California Supreme Court to seek changes to that provision, which is known as inverse condemnation.

But representatives of ratepayers and wildfire victims say the governor's proposal could amount to letting utilities off the hook for not maintaining their transmission lines and other equipment.

"If the governor is thinking about petitioning the Supreme Court, it would be nice to develop that policy in town halls where fire victims and ratepayers can speak out," said Jamie Court, president of Consumer Watchdog.

PG&E's poor reputation looms over the report. The company is still under court-ordered probation stemming from a 2010 gas explosion in San Bruno, just south of San Francisco. A federal jury convicted the company of violating a pipeline safety law and obstructing an investigation. And PG&E recently said that its equipment probably caused last year's Camp Fire, California's deadliest wildfire.

Mr. Newsom's report included a short section on holding PG&E accountable. There are limits to what the governor can do to the company. The bankruptcy judge overseeing its case has more influence over the company than Mr. Newsom in many ways.

But Mr. Newsom said he had not ruled out taking action against PG&E if it did not improve safety. He said one option was to break up the company and turn parts of it into municipal utilities owned and operated by local governments. Officials in San Francisco are already considering a proposal to take over PG&E's operations in their city.

Mr. Newsom said he was willing to give the company and its new chief executive and board time to make amends. “We’ve got to give these folks a chance,” he said.

The New York Times

By Peter Eavis

April 12, 2019

Los Angeles Is Having a Loud Economic Boom.

From home values to share prices, its expansion is outpacing big-city peers under a business-friendly Democratic mayor.

Los Angeles Mayor Eric Garcetti is almost 12 months into his second term and the economy of the second-largest city is outperforming No. 1 New York, No. 3 Chicago and the rest of the U.S. Measured by the growth of personal income, gross domestic product per capita, jobs, home prices, global trade and transportation, corporate equity and municipal debt, Los Angeles has become the most productive of the five biggest U.S. cities. 1 Even its perennial calamity of homelessness receded significantly for the first time last year since the city’s youngest mayor took office in 2013.

Garcetti didn’t set off the L.A. boom, but there’s no doubt that the city has prospered under his leadership. The 48-year-old Rhodes scholar, former Navy reserves lieutenant and jazz pianist says that Olympic aspirations are a sign of strength for the sunny metropolis of 10 million. In 2028, Los Angeles will host the summer games for the third time, the only U.S. city to do so and a rarity globally in making them a moneymaker.

“In my first hour on the job, the first thing I did was write a letter to the United States Olympic Committee saying we want the Olympics, and L.A. has bid on the Olympics more than any other city in the world,” he said during an interview in his office last month. “When I think about L.A. what we have, of course, is infrastructure. We could do the Olympics every four years and make money off of it, and we expect to net north of a billion dollars.”

Continue reading.

Bloomberg Politics & Policy

By Matthew A. Winkler

April 5, 2019, 2:00 AM PDT

Alaska House Finance Committee Kills School Bond Debt Reimbursement.

JUNEAU — The House Finance Committee began wading through proposed amendments to the fiscal 2020 operation budget Monday.

One of the more contentious amendments passed Monday would eliminate $100 million in funding for school bond debt reimbursement. This funding is designed to help schools manage construction and capital improvement costs.

This shifts the costs of school construction onto municipalities and boroughs, rather than the state. Rep. Dan Ortiz, I-Ketchikan, was one of four representatives to vote against the amendment, saying the legislation simply shifts the burden to local governments rather than save money.

Fairbanks North Star Borough Mayor Bryce Ward warned borough residents Tuesday during a Fairbanks Chamber of Commerce luncheon that the elimination of school bond debt reimbursement would likely increase property taxes by 1.1 mills. One mill is the equivalent $100 of tax per $100,000 of assessed property value.

The bonding program was suspended in 2015 but had been scheduled to restart in fiscal 2020. Previously, the state would reimburse 60 to 70 percent of debt taken on by local governments to work on schools.

“This is really, I think, the big touching point for our community and the local tax base. … That is something that has to be paid,” Ward said Tuesday, adding that debt falls outside of the borough’s revenue cap.

Nils Andreassen, executive director of the Alaska Municipal League, issued a news release Wednesday afternoon, assailing the amendment on similar grounds.

“The Governor has been successful in convincing many that their Constitutional obligations matter less when it comes to funding schools,” Andreassen wrote in a statement. “At the same time, the Governor’s pledge of ‘no new taxes’ applies only at the State level — increased and new taxes at the local level will be the direct result of the vote today, even as taxpayers come to grips with fewer services.”

Oil and gas tax credit repayment

Another debate-ridden amendment passed Wednesday morning would use funding from the Alaska Industrial Development and Export Authority to pay $70 million in oil and gas tax credits this upcoming fiscal year, rather than paying them from the state’s general funds.

North Pole Republican Rep. Tammie Wilson objected to the amendment, saying that taking the funds from AIDEA could hamper some of their other projects, including Fairbanks natural gas projects.

Ultimately, the amendment passed, 6-5. Wilson and Fairbanks Republican Rep. Bart LeBon voted against the amendment.

The amendments approved Wednesday will go on to be discussed by the full House. The operating budget is set to be taken up on the House floor next week.

The Fairbanks Daily News-Miner

Erin McGroarty, emcgroarty@newsminer.com

Apr 4, 2019

[Missouri Senate Passes Law Banning TIFs in Flood Plains.]

The Missouri Senate on Thursday passed and sent the House a bill that would prohibit using tax increment financing plans in flood plains.

In a TIF, most of the property taxes billed on properties within a designated TIF district are used to pay for improvements in the district, rather than being distributed to the public schools, library district, fire district and other government bodies that use property tax collections for their operations.

TIFs were created to help with the development — mostly commercial development — of blighted or other undeveloped areas.

Sen. Andrew Koenig, R-Manchester, sponsored this year's bill.

"This is a compromise (bill) going back to last year," he told reporters after Thursday's 33-0 vote sending the measure to the House. "Going back to 2008, we've had 27 states of emergency due to flooding.

"And when you have development in a flood plain, it's going to create more flooding problems downstream."

During the Senate's brief discussion before Thursday's vote, Sen. Jill Schupp, D-Creve Coeur, told Koenig: "I think this is a step forward that we can truly use these funds in areas that are blighted — and we can discourage building in flood plains, that causes so many problems."

But, even if the bill becomes law, it won't stop all development in flood plains.

Mid-Missourians who travel into the St. Louis area on Interstate 64/U.S. 40 drive through the Chesterfield Valley.

Before the record-setting floods of 1993, that area was mostly open, agricultural land with some residential and commercial buildings.

After the floods, the levee was raised and the area was transformed into numerous shopping centers, restaurants, office buildings and some high-dollar automobile dealerships.

"I don't think we should be risking taxpayer dollars in a risky situation like a flood plain," Senate President Pro Tem Dave Schatz, R-Sullivan — whose district includes the Chesterfield Valley — told reporters.

"Obviously, if private investment wants to go and invest in those areas, we're not prohibiting that from occurring."

Senate Minority Leader Gina Walsh, D-Bellefontaine Neighbors, agreed.

"I have always been of the belief that, if they want it and it's going to be profitable, they are going to build it with that TIF or without it," Walsh told reporters. "Folks will continue to build infrastructure and shopping centers.

"A lot of them will take the risk, if they investigate and find it's feasible."

Ultimately, TIFs are decided by local governments, even as they are guided by the state's laws.

For instance, in Jefferson City, the Farmer Companies received TIFs from the Jefferson City Council for improvements at the Capital Mall and for redevelopment of the former St. Mary's Hospital property.

Neither of those are in a flood plain, so the proposed new law wouldn't have affected them — and the new law wouldn't be retroactive, so it won't impact existing TIFs if it becomes law.

However, it does include language that limits an amendment to an existing TIF, "provided that such an amendment does not add buildings of new construction in excess of (25) percent of the scope of the original redevelopment agreement."

Walsh said TIFs serve a purpose.

"I have always thought that TIFs were a good tool," she explained, "but I have always also thought they were misused in places, and left empty boxes sitting along our highways and in districts across our state."

Koenig told colleagues before Thursday's vote: "This is significant for schools, for our library districts, our fire districts.

"It makes sure that our tax dollars actually go to the entities that provide government services."

News Tribune

by Bob Watson

April 5th, 2019

[S&P: The State Of New York's Big Four Urban Areas Outside Of New York City.]()

Colloquially known as the Big Five, New York State's largest cities by population are New York City, Buffalo, Rochester, Yonkers, and Syracuse. New York City has seen strong economic growth, the other four recently experienced a reversal of fortune.

[Continue Reading]()

Apr. 1, 2019

[Judge Dismisses Truckers' Lawsuit Against Pennsylvania Tolls.]()

Trucking groups had challenged the diversion of toll dollars to transit projects.

A federal judge [dismissed a lawsuit]() Thursday that challenged Pennsylvania's annual diversion of $450 million in state toll road money mostly to help pay for transit projects.

The lawsuit brought by trucking organizations claimed that the state's tolls are excessive because they are far greater than what the Pennsylvania Turnpike Commission needs to maintain those roads. By doing so, the plaintiffs argued the toll practices essentially discourage people from interstate commerce and travel, which are guaranteed under the U.S. Constitution.

But U.S. District Court Judge Yvette Kane rejected the constitutional claims about Pennsylvania's tolls and use of the money, tossing the lawsuit.

The state had countered that federal law allows them to tap the money for its current uses, which includes paying for capital projects associated with transit in the Philadelphia and Pittsburgh areas.

By the end of the day on Thursday, the plaintiffs had already filed a notice that they would appeal to the 3rd U.S. Circuit Court of Appeals.

While the state fought the lawsuit, which had sought to claw back billions paid to transit agencies, the Pennsylvania Turnpike Commission's almost $12 billion in debt and escalating toll hikes have prompted calls for reform.

Auditor General Eugene DePasquale last month said the state legislature needs to rework the law sending money to the transit agencies, according to the Philadelphia Inquirer. "The amount of money that this turnpike needs, under current law, to continue to operate as is is simply not sustainable under current law," DePasquale said.

Route Fifty

By Laura Maggi,
Managing Editor

APRIL 4, 2019

Puerto Rico Oversight Board May Seek Money Back From Bondholders.

SAN JUAN, April 3 (Reuters) – Puerto Rico's federally created oversight board believes it can recover payments to bondholders possibly in the billions of dollars if certain debt sold by the bankrupt U.S. commonwealth is found to be invalid, according to a motion filed late on Tuesday in federal court.

Critics on Wednesday called the board's targeting of bondholder payments another attempt to pressure creditors to settle.

The board, which filed bankruptcy for the island in May 2017 to restructure about $120 billion of debt and pension obligations, had sought approval in January to void more than $6 billion of defaulted general obligation bonds sold in 2012 and 2014 on the basis they were issued in violation of debt limits in Puerto Rico's constitution.

Other creditor groups in the bankruptcy are also trying to invalidate pension bonds and debt sold by the island's Public Buildings Authority.

U.S. Judge Laura Taylor Swain, who is overseeing the bankruptcy, has yet to rule on those requests.

The board's latest filing asks the court to extend a statute of limitations, which expires next month, until there is a ruling on the bonds' validity and because more time is needed to prepare "potentially hundreds" of lawsuits seeking principal and interest repayments. Swain will address the extension at an April 24 hearing.

James Spiotto, a municipal bankruptcy expert and managing director of Chapman Strategic Advisors, said the board is trying to step up pressure on creditors.

Because Puerto Rico bonds were widely held by municipal bond funds and other investors due to their attractive exemption from all local, state and federal income taxes, it would be "a nightmare figuring out who got paid what when, and how you get the money back," he said, adding that doing so would be a costly endeavor.

Dan Solender, a portfolio manager at Lord Abbett, said the board was likely seeking a more advantageous debt restructuring rather than "a long and expensive fight" with bondholders.

"If they really believe this issuance is not legal the responsible parties would be the lawyers and underwriters and not the bondholders," he said. On Monday, several Democratic members of Congress sent a letter to oversight board Chairman Jose Carrion urging legal action to recoup fees paid to underwriters and advisers involved in selling the GO bonds.

A board spokesman said all potential claims are being reviewed.

by Luis Valentin Ortiz

Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago Editing by Matthew Lewis

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Cash-Strapped Illinois, Chicago Seek Billions From Investors.

Despite their precarious finances, state and city leaders are turning to the bond market at what some say is an opportune time

Illinois and its biggest city kick off hundreds of millions of dollars in borrowings this week, a test of investors' willingness to lend to stressed governments prone to spending more money than they bring in.

The state launched borrowings with about a $440 million bond deal on Tuesday, followed by a sale topping $700 million by Chicago. Analysts expect what could be billions more especially from the state, as it puts together funds to do everything from paying retirees' pensions to launching capital projects.

Continue reading.

The Wall Street Journal

By Gunjan Banerji

Updated March 26, 2019 6:06 p.m. ET

Chicago, Illinois Bond Deals Cash In on Bond Market Rally.

Robin Prunty, head of research at S&P Global Ratings, examines the municipal bond market amid the current bond rally. She speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

[Watch video.]

Bloomberg MarketsTV Shows

March 27th, 2019, 8:21 AM PDT

[Is There Still A Path that Returns Puerto Rico to Debt Sustainability?]

The relatively generous settlement with the sales-tax backed bonds (COFINA) has reduced the funds available for everyone else.

Puerto Rico's debt restructuring is in a strange form of limbo.

Puerto Rico's oversight board is currently on life support. It is waiting to see if the Supreme Court takes up its appeal to the PROMESA appointment case. The appellate court concluded that the members of Puerto Rico's Oversight board need to be confirmed by the Senate, but upheld the rest of PROMESA (the law setting out Puerto Rico's debt restructuring process) and the board's existing decisions. And even if the current board selection process—modeled on the process used to pick the DC control board—is ultimately upheld, the clock is ticking: the current board's three year term runs out at the end of the summer.

If President Trump wants a new board—whether to wipe out the debt, or to pave the way for a more generous settlement of Puerto Rico's remaining claims as many creditors want—he clearly has an opportunity to change the board's composition.*

And at least for now the process for restructuring Puerto Rico's bonds also seems stuck.

[Continue reading.]

Council on Foreign Relations

by Brad W. Setser

March 25, 2019

[Kansas City Joins U.S. Airport Boom With $1.5 Billion Renovation.]

- **Brutalist-style terminals from 1970s haven't kept pace**
- **The world of air travel has changed,' project developer says**

Kansas City Mayor Sly James will be on hand Monday to celebrate the symbolic destruction of an unloved landmark: his city's nearly five-decade-old airport, whose brutalist-style, poured-concrete terminals make it appear like a relic of a bygone age.

The $1.5 billion, four-year renovation is the largest public works project ever in Missouri's biggest city and part of a growing construction boom by American municipalities that are overhauling airports built when "jet-set" was a synonym for the one percent.

Since the beginning of 2017, airports have raised nearly $30 billion in the bond market to finance work needed to accommodate record numbers of passengers. Chicago is planning a major expansion for O'Hare International, once the nation's biggest. New York's LaGuardia is getting a major makeover. In Salt Lake City, the entire airport, with the exception of its runways, will essentially be rebuilt over the next five years.

Like many around the country, Kansas City's, which opened in 1972, isn't well-suited to the times.

Patrick Klein, director of aviation at the airport, said its three, separated U-shaped terminals — one of which is currently empty — are essentially "cement igloos" that don't allow it to add more restrooms, concessions, nursing areas or other facilities that travelers have come to expect. That's meant it has been largely unchanged since the opening, despite a nearly tripling in passenger traffic. The renovation will transform the three-terminal space into a single-terminal operation.

Behind the Times

"These airports were designed with one-power outlet to plug in the vacuum for the cleaning crew," said Geoffrey Stricker, managing director at Edgemoor Infrastructure & Real Estate, the developer on the project. "The world of air travel has changed, security has changed, customer needs and terms have changed, technology has changed. Airports need to have modern facilities that are attractive to airlines."

On Friday, the airport completed a $110 million debt placement with Morgan Stanley for initial costs, and the city council has approved about $1.8 billion in bonds for the project. John Green, the airport's chief financial officer, said the first round of bonds — backed by the airport's revenue — will be sold in the "early to mid-summer."

Stricker, the developer, said the sheer scale and scope of the Kansas City project separates it from others. They're essentially constructing an entirely new facility with tarmac upgrades, a parking garage and a new road network to get to the facility, in addition to an entirely new terminal.

Officials in Kansas City hope the new airport will help draw corporate headquarters and talent from increasingly expensive coastal cities.

The condition of the airport is "adequate for a market this size" but has trouble competing with other regional epicenters like Denver or Dallas, said Tim Cowden, president and CEO of the Kansas City Area Development Council. "The airport didn't give off the dynamism and vibrancy that the city has," he said. "Now it will."

Not Good Enough

He thinks the airport was a reason Kansas City didn't make the final list for Amazon.com Inc.'s second headquarters, which the city bid for. "Our airport and our air service was not up to par with the other regions that made it," he said. "Now, as we have opportunities to compete for future projects, this new airport will allow us to compete on a level with other markets in our fighting weight."

On Monday, Mayor James is expected to join airport, community and development officials to start the ceremonial demolition by hammering off a piece of the existing terminal — officially beginning the four-year endeavor.

Bloomberg Markets

By Danielle Moran

March 24, 2019, 6:50 AM PDT

Pennsylvania Proposes Restrictions on Municipal Interest Rate Swaps

HIGHLIGHTS:

- New legislation has been proposed in Pennsylvania imposing specific restrictions and parameters on interest rate swaps entered into by certain cities, counties and municipal authorities in the Commonwealth, and imposing new obligations on the providers of such interest rate swaps.
- The First Class City and County Interest Rate Management Agreement Act (H.B. 884) has been referred to the House Committee on Local Government for further consideration. It is anticipated that a similar bill will be introduced in the state Senate shortly.

New legislation has been proposed in Pennsylvania imposing specific restrictions and parameters on interest rate swaps entered into by certain cities, counties and municipal authorities in the Commonwealth, and imposing new obligations on the providers of such interest rate swaps. The bill (H.B. 884) – First Class City and County Interest Rate Management Agreement Act – was introduced in the House of Representatives on March 19, 2019. The bill restates certain restrictions first proposed earlier this year in H.B. 320 and S.B. 206, introduced as part of a series of legislation in both houses of the General Assembly intended to address municipal government reform.

The bill has been referred to the House Committee on Local Government for further consideration. It is anticipated that a similar bill will be introduced in the state Senate shortly.

Which Municipal Entities Are Covered (Each a "Contracting Authority")

- Cities of the first class (those having a population of at least 1 million inhabitants)
- Counties of the first class (those having a population of at least 1.5 million inhabitants)
- Certain municipal authorities

Which Agreements Are Covered

- Any agreement which "in the judgment of the contracting authority is designed to manage interest rate risk or interest cost of the contracting authority on any debt or other debt-related obligations a contracting authority is authorized to incur," and expressly references swaps, interest rate caps, collars, corridors, ceiling and floor agreements, forward agreements, float agreements and other similar arrangements.

Restrictions and Parameters

- Each interest rate management agreement or related confirmation must be **authorized and awarded by resolution** of the contracting authority
- No payments may be made to or on behalf of a contracting authority by the other party except **periodic scheduled payments, termination payments and attorney fees and other**

consultant fees incurred in connection with entering into an interest rate management agreement
- Periodic scheduled payments must commence **not later than three years** after the date of the related confirmation
- The index or basis used to calculate the periodic scheduled payments to be received by the contracting authority must be **"substantially similar"** to the index or basis used to calculate the interest due on the associated debt
- At the time of execution, the notional amount of each interest rate management agreement, together with the notional amount of outstanding interest rate management agreements, **cannot exceed 30 percent of the total principal amount** of the debt sharing the same source of payment as such interest rate management agreements
- Payments received by the contracting authority **must be deposited in a payment account** and used for certain enumerated purposes
- The scheduled expiration date of an interest rate management agreement **cannot exceed 10 years** from the date of the related confirmation unless the interest rate management agreement allows the contracting authority to **terminate at any time after 10 years without making a termination payment**

Provider Obligations

Each provider of an interest rate management agreement **must acknowledge the following in a certification**:

- that the contracting authority is a political subdivision or municipal authority
- that the provider has read the law
- that the contracting authority may only enter into an interest rate management agreement to manage interest rate risk or interest cost on debt or other debt-related obligations of the contracting authority
- that it will notify the state's Department of Community and Economic Development, in writing, promptly upon payment of a termination payment by the contracting authority, including the date and amount of the payment and identity of the interest rate management agreement under which it was made

Holland & Knight LLP

by Douglas I. Youngman

USA March 20 2019

Investors Keep Puerto Rico Bonds After First Chapter of Restructuring.

Troubled island's financial prospects could be turning around

Investors are hanging on to bonds issued as part of Puerto Rico's massive restructuring effort, a sign of confidence in the fiscally troubled island's prospects.

Prices have edged higher for $12 billion in new debt backed by sales taxes that Puerto Rico issued several weeks ago. The bonds, known by their Spanish acronym as Cofina s, were issued to investors including hedge funds as part of the U.S. territory's financial restructuring, marking the first settlement in ongoing negotiations to fix its broken finances.

Though the bonds' prices have pared some of their earlier gains, one slice of newly issued sales tax bonds recently traded with an average price of about $95.44, up from $93.00 last month, according to Refinitiv's Municipal Market Data.

Continue reading.

The Wall Street Journal

By Gunjan Banerji and Andrew Scurria

Updated March 21, 2019 5:03 p.m. ET

High-Yield Muni Market Passes a Key Test From Puerto Rico's Sell-Off.

- **New sales-tax debt is most actively traded in muni market**
- **There was concern it could weigh on performance of junk bonds**

Over the past month, hedge funds and other investors dumped more than $2.5 billion of debt they received in Puerto Rico's record restructuring, a sell-off that made the sales-tax-backed securities the most actively traded in the municipal-debt market.

Yet the prices haven't crashed — and the flood did little, if anything, to dampen the gains for other tax-exempt junk bonds.

The performance shows that the $3.8 trillion municipal market weathered a major test from Puerto Rico's bankruptcy, by far the biggest ever for an American government. The debt restructuring, a precursor of others that will follow, had raised concern that the speculative corner of the market would struggle to absorb the billions of dollars of new debt, pushing up yields on Puerto Rico's new securities and other high-risk debt competing for limited space in investors' portfolios.

Continue reading.

Bloomberg Markets

By Michelle Kaske

March 19, 2019, 6:34 AM PDT

Current Status of Puerto Rico Debt Restructuring.

After a decade-long fiscal decline, Puerto Rico filed for bankruptcy protection and has been in federal court since May 2017 to restructure its $120 billion debt portfolio comprised of public debt and unfunded liabilities. The financial crisis of this U.S. commonwealth has contributed to a high poverty rate, in which 40% of Puerto Rican citizens are living under the poverty line and the unemployment rate has been above double digits, along with a nearly insolvent public healthcare system.

The prospect of Puerto Rico's debt restructuring, negotiations with its creditors, and getting a plan of adjustment approved by the bankruptcy court became even more uncertain after a U.S. Appeals Court ruled in February 2019 that the federal oversight board overseeing the bankruptcy process was unconstitutionally appointed.

The court also set a 90-day period for the U.S. president and the Senate to either validate the appointments or reestablish the oversight board. As things were looking promising and progress was being made to achieve the objective of debt restructuring for Puerto Rico, this new ruling has knocked any progress off its rails.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 20, 2019

Seller's Market Seen Aiding Illinois and Chicago Bond Issues.

CHICAGO (Reuters) – Financial uncertainties swirling around Illinois and Chicago may not deter bond buyers when the two fiscally shaky governments sell more than $1.1 billion of debt this week.

Slim supply in the $3.8 trillion U.S. municipal market, yield-hungry investors, and the shelving of interest rate hikes by the Federal Reserve for the remainder of 2019 have tipped the scale in favor of sellers, investment managers said.

“We believe that if (Chicago and Illinois are) going to pick a time to come to market, now is a pretty good time to be coming,” said Dan Heckman, national investment consultant at U.S. Bank.

Illinois, the lowest-rated U.S. state at a notch or two above junk due to its huge unfunded pension liability and chronic structural budget deficit, will offer $452 million of taxable and tax-exempt general obligation (GO) bonds in competitive bidding on Tuesday.

On Wednesday, underwriters led by Barclays are scheduled to price $700 million of GO bonds for Chicago, which is also struggling with pension funding and deficits, just days before the city elects a mayor to replace the retiring Rahm Emanuel, who served two terms.

“My gut tells me these deals are going to get done and done at a level that is pretty attractive for Illinois and the city of Chicago and over a longer period of time will likely prove unattractive for investors,” said Nicholos Venditti, a portfolio manager at Thornburg Investment Management.

Illinois’ deal comes just weeks after the new Democratic governor, J.B. Pritzker, unveiled a fiscal 2020 budget and a plan to rescue the state’s sagging finances by switching to graduated income tax rates via a constitutional amendment process.

Budget measures, including the use of one-time revenue and a more than $800 million reduction in contributions to the state’s woefully underfunded pensions, could push Illinois closer to a junk credit rating.

“That is a significant risk,” Venditti said, adding that the situation is even “scarier” in Chicago, which already has a junk rating with Moody’s Investors Service, along with ratings of BBB-plus with

S&P Global Ratings and BBB-minus with Fitch Ratings.

The city’s two mayoral candidates – Toni Preckwinkle, who currently heads the Cook County Board of Commissioners, and attorney Lori Lightfoot – have not disclosed detailed plans for addressing a projected $252 million fiscal 2020 budget deficit and escalating pension payments that will top $2 billion in 2023.

“At the city level, I think investors are flying blind,” Venditti said.

Meanwhile, demand is strong with municipal bond funds, including high yield, reporting big weekly inflows of investor dollars since early January, according to Lipper.

Muni bond supply totaling $63.8 billion so far in 2019 is 12 percent below the average year-to-date volume in the previous five years, according to Refinitiv data.

Given the “very, very attractive” muni bond environment for issuers, Heckman said there will be appetite for debt from Illinois and Chicago if their deals are “priced appropriately.”

Investors have been demanding hefty yields for the governments’ GO debt, with Illinois paying the biggest penalty among states.

Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis

MARCH 25, 2019

Fitch Ratings: California Ruling Leaves Pension Status Quo Intact for Now

Fitch Ratings-New York-12 March 2019: California’s Supreme Court ruling last week leaves the status quo intact on the legal protection of pension benefits in place in the state for decades, according to Fitch Ratings. However, as the first of several pending legal challenges to public pension reforms implemented at the state and local levels since the Great Recession, the court may yet provide further clarity on the extent of protections provided by the “California rule”, a decades-long state judicial precedent holding that pension benefits – granted when employment begins – are constitutionally protected and cannot be impaired.

The decision, in Cal Fire Local 2881 v. California Public Employees Retirement System (Cal Fire case), upheld a signature reform provision of the state’s Public Employee Pension and Retirement Act of 2013 (PEPRA), but otherwise left intact the aforementioned California rule. The impact of PEPRA is reflected in the pension liabilities that Fitch incorporates in its analysis, and thus the ruling has no impact on Fitch’s rating of the state of California or local governments.

The 2013 reform provision at issue in the Cal Fire case eliminated the ability of existing employees to purchase additional service credit toward their own retirement, known as “airtime”. The ruling, in Fitch’s view, was significant insofar as it upheld a pension reform eliminating a benefit previously available to existing employees, but it was narrow in scope. The court essentially held that airtime was not intended by the state legislature to be irrevocable when it was authorized in 2003, nor was airtime a form of deferred compensation in the same manner as core pension benefits. Instead, airtime was viewed as an optional benefit similar to other fringe benefits available to employees.

However, by ruling that airtime is outside of core pension benefits, the court avoided, for the time being at least, ruling on the protection of accrued pension benefits under the California rule. This precedent, which dates back to the Allen v. City of Long Beach case of 1955, holds that reducing pension benefits, once vested, would constitute an impairment of contract. In California, the practical impact of this protection has been to lock in past legislative decisions to increase benefits, while preventing any effort to decrease benefits, except for new employees.

Roughly a dozen other states have modelled their own pension legal protections on the California rule, where it has generally constrained pension reforms that might materially reduce liabilities. In a few states, courts have narrowed which benefits are considered vested, for example by allowing lower accruals for benefits earned following a reform (such as in Oregon) or excluding some components of benefits, such as cost-of-living adjustments, from contractual protections (such as in Colorado).

It remains to be seen whether California's Supreme Court is willing to reconsider the extent of the California rule's pension protections more directly, although several pending cases may provide an opportunity. Two upcoming cases have to do with pension "spiking", the practice of inflating compensation just before retirement in order to boost future benefit payments; PEPRA narrowed which elements of compensation counted in this calculation in order to curb spiking.

The first case, Alameda County Deputy Sheriff's Association v. Alameda County Employees' Retirement Association (Alameda case), like the Cal Fire case, challenges another provision of PEPRA applicable to existing employees that exclude several elements of pensionable compensation from benefit calculations. The provision was overturned in a lower court ruling and has been appealed by the state to the Supreme Court. In a similar case, Marin Association of Public Employees v. Marin County Employees Retirement Association, the narrowing of pensionable compensation was upheld, but is expected to be ruled on by the Supreme Court after the Alameda case. The timing of both reviews is not yet known.

Fitch notes that former Governor Brown vigorously pursued a favorable outcome on the Cal Fire case, to the point of replacing the Attorney General in arguments before the Supreme Court with attorneys from the governor's office. Whether Governor Newsom will pursue the upcoming cases in the same manner is unclear at this point. That said, press reports during the last election campaign indicated that he supported maintaining the California rule even if it were weakened by courts.

In the event that the Supreme Court had overturned PEPRA's elimination of airtime, the impact could have been costly for employers. Airtime provisions were intended to be cost neutral, given that employees would have to purchase the incremental value of their higher benefits. However, in reality the cost of incremental benefits was based on the pension's actuarial and economic assumptions at the time of purchase, leaving employers responsible if these assumptions later proved inaccurate. The Cal Fire ruling noted CalPERS' assessment that the actual cost of airtime was underestimated by 12% to 38%, depending on the category of employee.

PEPRA covers the California Public Employees Retirement System, the California State Teachers Retirement System, and 20 county retirement systems established under the 1937 County Employee Retirement Law. PEPRA was signed by Governor Brown in 2012 and became effective Jan. 1, 2013, although many provisions of the law only became effective upon the expiration of collective bargaining agreements in place at the time. The state estimated at the time the law passed that it would lower its own cost of pensions by $55 billion over time, with billions more in savings for local governments. In addition to the provisions at issue in the California court cases, PEPRA lowered benefits for new workers, capped pensionable wages, restricted granting of retroactive benefit increases and prohibited pension contribution holidays.

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Airbnb Loses Major Fight Over California City's Rental Law.

- **Appeals court rejects challenge citing internet immunity law**
- **Ruling deals setback to Airbnb, HomeAway in fights with cities**

Airbnb Inc. and Expedia Group Inc.'s HomeAway failed to persuade a U.S. court of appeals to strike down a Santa Monica law that makes the companies liable for illicit rentals in the Southern California beach city.

The ruling Wednesday by a three-judge panel of the Ninth Circuit is a setback for the home-sharing platforms in their effort to avoid regulation by cities that blame the rapid proliferation of short-term rentals for a shortage of affordable housing and a disintegration of residential communities.

The Santa Monica ordinance holds the companies responsible for booking rentals of residences that aren't licensed by the city. The appellate panel agreed with the city that the restriction doesn't violate the U.S. Communications Decency Act of 1996, which shields online services from liability for the content that their users post on their sites.

San Francisco-based Airbnb is the largest home-rental platform with more than 6 million listings around the world. The company is gearing up to be ready to go public by the end of the year, but is still fighting various cities in court over efforts to curtail its operation. In January, Airbnb and other home-sharing sites won a ruling granting a temporary reprieve from a New York City law that would compel them to turn over renter data, a requirement that threatens to cut their bookings in the city by half.

"Airbnb has seen setbacks like this over the years," Bloomberg Intelligence analyst Mandeep Singh said. "They will continue to work with the regulators on tax collection and other fees but it should not have much of an impact on its IPO."

Airbnb is also fighting Paris where it faces as much as 12.5 million-euro ($14 million) in fines for allegedly posting illegal advertisements, and in November it sued Boston over a new ordinance that it says would limit short-term home rentals and impose unfair restrictions and financial penalties on the company.

The courts' interpretation of the 1996 law and the protection it affords interactive online businesses has become a central theme in legal challenges to Airbnb and its rivals. Federal judges in San Francisco and Los Angeles have found that cities can hold the companies liable for processing transactions, as opposed to simply listing information from users. Yet in a separate case in Los Angeles, a judge concluded that Airbnb can't be made responsible for renters breaking their leases when they list their apartments on the site.

Airbnb and HomeAway argued that the Santa Monica ordinance makes it impossible for them to operate, particularly if other municipalities adopt similar laws, because it would require them to monitor and remove listings for unregistered residences. If they don't, users would be stuck looking at listings that they won't be able to book, according to the companies.

The Ninth Circuit panel concluded the city's statute only puts an "incidental" burden on the companies' constitutional right to free speech.

"Even assuming that the ordinance would lead the platforms to voluntarily remove some advertisements for lawful rentals, there would not be a 'severe limitation on the public's access' to lawful advertisements, especially considering the existence of alternative channels like Craigslist," the judges said in the ruling.

Airbnb said in a statement that the Santa Monica case doesn't reflect the progress it has made working with local governments across the country.

"Airbnb has made great strides around the world, working with dozens of cities to develop more than 500 partnerships including fair, reasonable regulations, tax collection agreements, and data sharing that balance the needs of communities, allow hosts to share their homes in order to pay the bills and provides guests the opportunity to affordably visit places like the California Coast," the company said.

Expedia said Wednesday's ruling is out of step with other court decisions and runs contrary to the Communications Decency Act's protections for innovation on the internet.

Santa Monica said in a statement that the unanimous ruling confirms the city's right to regulate home sharing to protect its limited housing stock for residents.

"We are thrilled to have confirmation from the Ninth Circuit that our balanced approach to home sharing is working at a time when housing and affordability continue to challenge the region," Santa Monica Mayor Gleam Davis said. "This is a big win for Santa Monica residents and our residential neighborhoods."

The case is HomeAway.com Inc. v. City of Santa Monica, 18-55367, U.S. Court of Appeals, Ninth Circuit.

Bloomberg Markets

By Edvard Pettersson

March 13, 2019, 9:55 AM PDT Updated on March 13, 2019, 2:55 PM PDT

— With assistance by Eric Newcomer, and Olivia Carville

[San Francisco's Version of a Green New Deal Is Taking Over Its Power Company.]

Think flower power – but literally.

What happens when a famously left-leaning city dives into the buttoned-down business of electric utilities? San Francisco may soon find out.

City officials are studying the possibility of creating their own utility out of the wreckage of PG&E Corp., the energy giant that filed for bankruptcy in January. The city would buy the company's local wires—or possibly seize them through eminent domain—to create a utility that would be, well, very San Francisco.

If all goes according to plan, PG&E's system would serve as the backbone of a full-service municipal utility that San Francisco's politicians could use to make an all-out push for 100 percent renewable power.

Continue reading.

Bloomberg

By David R Baker

March 12, 2019, 2:00 AM PDT Updated on March 12, 2019, 9:27 AM PDT

[S.C.'s Massive Debt Load Partly Based on Misleading State Finance Report.]

When it comes to debt, the state of South Carolina is swimming in billions of it.

Yet an important report on the state's finances, issued by Comptroller General Richard Eckstrom – the state's chief accountant – and considered a key document by credit rating agencies in evaluating state debt, according to an expert, paints a misleading picture of South Carolina's government structure and authority over state agencies, a review by The Nerve found.

A description of state government and a related organizational chart in the fiscal 2018 Comprehensive Annual Financial Report (CAFR) do not accurately reflect the structure of many state agencies or the Legislature's control over the other two branches of government.

Continue reading.

THE NERVE

By RICK BRUNDRETT

March 15, 2019

NYSE Move That Never Happened Leaves NYC Still Paying Debt.

- **Project scuttled amid budget shortfalls in wake of recession**
- **NYC sells bonds Thursday to refinance debt left from deal**

It was 1998. The Internet bubble was building, day-trading was in full swing and the New York Stock Exchange was given the biggest subsidy in the city's history to stop it from leaving Wall Street for New Jersey — keeping the Y in the NYSE.

The plans for a new home for the world's biggest stock exchange were shelved after the Sept. 11 terrorist attacks and a recession that saddled New York with a big deficit. But the city is still paying for more than $60 million of bonds that were left behind.

The expense, though tiny for a city with a $92 billion budget and a fraction of what it would have shelled out if the project had gone forward, puts New York among a long line of governments that turned to the $3.8 trillion municipal-bond market to bankroll ill-fated business ventures and became stuck with the debt for years. Rhode Island was burned by a foray into the video-game business. A trash incinerator pushed Harrisburg, Pennsylvania, into financial ruin. And a Detroit suburb saw its dreams of transforming itself into the Hollywood of the Midwest dashed when the debt-financed movie studio was shelved.

Such missteps helped fuel a long-simmering backlash against subsidies routinely handed out to corporations by local governments. It reached a new pitch this year, when Amazon.com Inc. scuttled plans for a headquarters in Queens after a mounting political protest over steering taxpayer money to a company run by the world's richest man.

"This reconfirms how misguided the use of public subsidies were for a project for something as large as the New York Stock Exchange," said Bettina Damiani, a former project director for Good Jobs New York, an advocacy group that opposed the NYSE deal. She said it's "frustrating" that it's still costing taxpayers decades later. "Its almost like the stock-exchange deal was a precursor of all the things we are talking about now."

On Thursday, New York's Industrial Development Agency sold about $32 million of bonds to refinance some debt left from the episode. With demand for New York debt high, the city paid a top yield of 1.82 percent on debt due in nine years, 0.16 percentage point less than what investors demand on the highest-rated securities.

Kristen Kaus, spokeswoman for the New York Stock Exchange, didn't respond to a request for comment. Christian Ficara, a spokesman for the city's Economic Development Corp., which includes the industrial development agency, said the refinancing, by saving money, will help the city with current redevelopment projects.

"The NYSE serves as a critical asset within the city's financial infrastructure, but the decision to invest resources into its redevelopment was born of a different time," he said. "Today, we are working to grow and diversify New York City's economy in other ways."

When the deal was struck, Mayor Rudy Giuliani said the more than $1 billion in cash, tax breaks and other subsidies extended to the NYSE were a "Christmas gift to the city" that would keep New York the financial center of the world.

The deal called for the NYSE to move to a new office tower and trading complex across the street from its historic spot on Wall Street. Under the agreement, the city and the state were to buy an entire block in the financial district for $450 million, according to a report by the Independent Budget Office in 2001. The city and state also were to extend $480 million in grants to build the complex, in addition to other aid.

Before construction started, New York spent tens of millions of dollars on pre-development, design and site acquisition costs, according to bond documents.

But after Michael Bloomberg replaced Giuliani as mayor in early 2002, he pushed for the NYSE to contribute more for the project, saying his predecessor left the public bearing too much of the cost at a time when the recession had left the city facing a $5 billion budget shortfall. Bloomberg is the founder and majority owner of Bloomberg LP, the parent company of Bloomberg News.

Richard Grasso, then the NYSE chairman, called off the move later that year, though the exchange later shifted nearly all its trading to a data center in Mahwah, New Jersey. NYSE executives still work out of its historic building in downtown Manhattan.

New York issued about $108 million of municipal bonds in 2003 to recover what it had already spent, including $3 million per month to hold onto land for the project and a $22 million down payment for an office building, according to the New York Times.

The 2003 bonds were refinanced at a lower rate through debt issued in 2009, and those securities were refinanced again by Thursday’s sale. According to a cost-benefit analysis from the city, the refinancing will save taxpayers about $4 million.

The last of the new bonds will be paid off in 2028, three decades after the NYSE deal was cut.

Bloomberg Technology

By Danielle Moran

March 14, 2019, 6:00 AM PDT Updated on March 14, 2019, 11:54 AM PDT

— With assistance by Henry Goldman, and Nick Baker

Could New York City Go Bankrupt? The Muni Market Doesn’t Think So.

It wasn’t quite “Headless Body in Topless Bar.” A New York Post column published online last weekend blared: “New York City is edging toward financial disaster, experts warn.” But that is news to the municipal bond market.

“New York City could go bankrupt, absolutely,” the Post quoted an economist as saying—yet that didn’t even happen during the fiscal crisis of the 1970s. And as for how the muni market is viewing the Big Apple’s credit quality, it sees it more as gilt-edged than junk. (Barron’s and the New York Post are both owned by News Corp .)

Moody’s Investors Service recently raised its rating on New York City general obligation, or GO, bonds to Aa1, just a single notch below the top-grade of Aaa. General obligation bonds are backed by tax revenues and the full faith and credit of the issuer (as opposed to a bond backed by stream of revenues, such as tolls from a bridge or highway).

Standard & Poor's and Fitch Ratings both rate New York City AA, one grade lower than Moody's, but still a very high-quality credit.

In raising its rating, Moody's wrote:

"The upgrade…reflects continued strengthening and diversification of New York City's economy, reducing its reliance on volatile financial services. The city's competitive advantages include a young and highly skilled labor pool, access to higher education and medical centers, strong domestic and international transportation links, and low crime rates. Those fundamentals position New York City for strong future growth, especially in media, medical research, and technology, while maintaining its deep strength in financial services."

The column ignored those positives and instead concentrated on New York City's high spending and debt levels. The city, which has earmarked $750 million in savings in its preliminary fiscal 2020 budget, faces a "bloodbath if New York's economy is hit by financial shocks—including a recession, which some see on the horizon—analysts warn," the column asserted.

"In general, we find Moody's more believable here," the Municipal Market Analytics advisory wrote in reaction to the Post piece.

"The city's immense and well-diversified economy provides government managers with sufficient tools to navigate modest projected deficits," the advisory added. "So while lender caution is well placed regarding the city's looming budget struggles, not to mention fears that the current mayor may be too slow in changing course if conditions erode faster than expected, the city's long-term credit profile remains resilient, in particular compared with other government and corporate borrowers nationwide."

Indeed, the muni market, which has no political ax to grind, snapped up a recent offering of $900 million New York City GOs, according to MMA. After the bonds were offered at yields within a basis point or two of the triple-A benchmarks, the notes rallied in price to lower their yields by an additional seven basis points. (A basis point is 1/100 of a percentage point.)

That alone contradicts the column's assertion that another fiscal crisis is looming. When the Big Apple's credit was crumbling in the 1970s, it took some arm-twisting to get the city's major banks to underwrite even its short-term notes. By contrast, New York City's long-term debt trades strongly.

From the perspective of one who was born and raised in New York City, who lived in Brooklyn during the fiscal crisis (and before it was cool), and who cut his teeth covering the muni market during those dark days, the comparisons between then and now are a stretch. To be sure, rising homelessness and the deteriorating transit system (the purview of the Metropolitan Transportation Authority, a state agency) raise warning flags amid the boom of billionaires' condos.

Bankruptcy is possible for major cities, as Detroit has shown. And there is life afterward, as Barron's Mary Childs has reported. But New York City is far from that, and the muni market knows it.

Barron's

By Randall W. Forsyth

March 13, 2019 7:30 a.m. ET

Illinois’s Credit Problems Are Far From Over.

Illinois, the state with the lowest-rated municipal credit, has managed to hang on to its investment-grade status. But that doesn’t mean that the Land of Lincoln is out of its fiscal quagmire, analysts say.

The back story. It doesn’t take much change to constitute an improvement in Illinois’ fiscal situation; during the previous governor’s administration the state went for a stretch of more than two years without passing a single budget. It still has more than $8 billion of unpaid bills and a pension funding gap of more than $133 billion.

Continue reading.

Barron’s

By Alexandra Scaggs

March 15, 2019 1:24 p.m. ET

Jackson County, Georgia Pays Hackers $400,000 After Ransomware Attack.

Cities and towns continue to be a profitable target for successful ransomware attacks. As we previously reported [view related posts], the list of cities and towns getting hit with ransomware attacks continues to grow.

Last week, Jackson County, Georgia admitted that it paid hackers $400,000 to obtain access to its information that was locked down by a ransomware attack. The ransomware attack locked agencies out of almost all of their systems, including the sheriff’s office that does criminal bookings, causing the county to try to do business the old-fashioned way—using paper.

According to the County Manager, rebuilding the networks from scratch (apparently there was no back-up system in place), would be a long and costly endeavor. The City Manager said they were facing closure of operations for many months, so paying the ransom was an easier option.

After payment was made, the hacker sent the decryption key, which allowed county employees to get back on their computers and resume work. The ransomware involved was Ryuk, which has been rampant and is believed to originate from Eastern Europe or Russia.

The message to state and municipal governmental entities? Check that back-up system and test it to see if it works in an emergency.

Robinson & Cole LLP

by Linn Foster Freedman

March 14 2019

Fitch Ratings: N.J. Exec Budget; A More Restrained Proposal With Projected On-Track Fiscal 2019

Fitch Ratings-New York-13 March 2019: The New Jersey governor's executive budget for fiscal 2020 largely continues current fiscal initiatives, including the gradual pension contribution ramp up, apart from a proposal to raise the top income tax rate on taxpayers earning between $1 million and $5 million. Updates to current fiscal 2019 are included in the executive budget and point to an anticipated budgetary surplus despite reported revenue weakness year-to-date through January. Differing from the governor's inaugural budget proposal for fiscal 2019, the millionaires' tax is the lone substantial tax policy item. Instead, this year's proposal is more notable for its focus on expenditure savings to create space for other spending initiatives. The recommended consistency in state fiscal policies supports the Stable Outlook on New Jersey's 'A' Issuer Default Rating (IDR), says Fitch Ratings.

The proposed $38.6 billion operating funds budget includes modest $651 million (1.7%) overall net growth from fiscal 2019 as compared to 6% estimated growth in fiscal 2019, which ends on June 30. The budget proposal counts on a significant $798 million in employee health benefit savings and $475 million in recoverable Medicaid funds, that together with proposed revenue initiatives will fund higher appropriations for pensions ($546 million), PreK-12 education ($282 million), debt service ($173 million), and contract settlements ($159 million), along with an increased ($100 million) general fund appropriation for New Jersey Transit (NJT) that includes replacing prior transfers from the New Jersey Turnpike and NJT capital funds.

Fitch believes the employee health care savings goals are attainable as $333 million reportedly have already been secured and the balance appears achievable based on historical results and announced agreements with collective bargaining units. The state recently reached a tentative contract agreement with its 32,000 member Communications Workers of America unit that provides 2% annual wage increases through fiscal 2023 in exchange for $70 million in annual health care savings.

The largest appropriation increase is the additional pension contribution (84% of net proposed budget growth), raising the contribution to almost $3.8 billion. The payment represents 70% of the actuarially determined contribution (ADC) and continues the state on the path of a gradual 1/10th annual phase-in to the full ADC for pensions in fiscal 2023. Pending full contributions in fiscal 2023, Fitch would expect further deterioration in the funded condition of the plans, even if all plan assumptions are met. The $3.8 billion pension contribution accounts for 10% of the operating budget and includes a $2.7 billion appropriation from the general fund and just over $1 billion from the state lottery.

The state's well above average long-term liability burden and pension contribution ramp-up are reflected in Fitch's 'A' IDR on the state. Beyond the governor's proposal, the state recently received responses from a request for qualifications to pursue additional state asset deposits to the pensions. The state's underfunded commitments to retired state employees and teachers have weighed on the state's rating and remain a negative rating factor absent further policy action.

REVENUE INITIATIVES

As noted above, the only significant revenue initiative in the governor's proposal is the increase of the 10.75% personal income tax (PIT) rate to taxpayers earning more than a $1 million, from the current $5 million threshold (projected to generate $447 million). In addition, the budget assumes revenue from legalization and taxation of adult use cannabis for $60 million over six months partly offset by an increase in appropriations for start-up costs; an increased fee on opioids distributors and manufacturers; and an assessment on corporations that employ 50 or more people that are on Medicaid. Estimated revenue from these initiatives totals approximately $550 million. Should the measures fail to be approved; other revenue solutions or expenditure reductions will need to be identified to balance the fiscal 2020 budget.

Including the new revenue, the state forecasts just over $1 billion (2.9%) in growth from expected revenue in fiscal 2019. The forecast incorporates an $800 million reduction in the fiscal 2019 revenue base from one-time revenue measures included in the current-year budget and projects steady growth in the state’s economy through the remainder of calendar 2019, with some slowing in 2020, for estimated 3.5% natural growth in the revenue base. The state’s forecast is premised on continued growth in personal income, gross state product, and nonfarm employment through the forecast period. Fitch believes these forecasts to be reasonable based on recent quarterly experience and expects that future economic growth will remain below that of the nation.

Revenue in excess of budget growth and required appropriations for open space acquisition is applied to bolstering the state’s ending budgetary fund balance to almost $1.2 billion (3% of appropriations). While Fitch believes the fund balance would remain slim in relation to the state’s historical economic and revenue cyclicality, the planned addition is a positive step.

APRIL REVENUE UPTICK EXPECTED TO BALANCE FISCAL 2019 OPERATIONS

Updates to fiscal 2019 financial operations are included in the executive budget and point to an anticipated budgetary surplus despite reported revenue weakness year-to-date through January. Revenues from the personal income tax (PIT) and sales tax were reduced, while corporation business taxes (CBT) were boosted. Significant one-time receipts include $282 million from the state’s tax amnesty program, $200 million in deemed repatriated dividends, and $200 million in CBT receipts. Total estimated revenue of $37.7 billion is a $328 million increase (0.9%) from the enacted budget, for 4.5% revenue growth (inclusive of tax policy actions and one-time receipts) from fiscal 2018.

The cut to the PIT forecast incorporates the effects of changes to federal tax law in 2017 (Tax Cut and Jobs Act; TCJA) that resulted in a significantly larger proportion of taxpayers prepaying estimated taxes on income earned in 2017 (fiscal 2018.) While the state anticipated some change to taxpayer behavior in fiscal 2019, the state reports the 72% of taxpayers that remitted estimated PIT payments by Dec. 31, 2017 plunged to 19% in Dec. 31, 2018, as the TCJA’s $10,000 deduction cap on state and local tax payments removed the incentive to prepay PIT. This sharply reduced fiscal 2019 PIT collections through January (down 6% year over year.) While downgrading the PIT forecast, the state believes the balance of PIT revenue expected in fiscal 2019 will be collected by April as state economic conditions and employment remain stable.

Additional updates to the state’s fiscal 2019 budget include $382 million in appropriation lapses and $629 million in increased appropriations. In combination with a higher beginning fund balance of $990 million, the state estimates an ending fund balance of just over $1 billion (2.9% of appropriations). Should the state’s April revenue collections fall short of expectations, the balance is available to apply to solving the gap in addition to the governor’s ability to unilaterally forestall appropriations.

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Judge Denies Puerto Rico Fiscal Board Request to Compel Certain Bond Insurer Documents.

SAN JUAN – U.S. Magistrate Judge Judith Dein has denied a request from Puerto Rico's Financial Oversight and Management Board to compel insurers of Puerto Rico Electric Power Authority bonds to provide certain documents related to their request to put the utility into receivership.

Last October, National Public Finance Guarantee Corp., Assured Guaranty Corp., Assured Guaranty Municipal Corp. and Syncora Guarantee Inc. filed a motion seeking relief from the automatic stay on litigation to allow them to have a receiver appointed for Prepa. The motion asserted that they were entitled to seek a receiver because the value of their collateral is diminishing or is being impaired by mismanagement at Prepa.

The receiver motion occurred after the First Circuit Court of Appeals had reversed a prior ruling that the insurers were not entitled to the seek a lift of the stay to pursue a receiver for Prepa.

The fiscal oversight board then sought to have the insurers disclose documents reflecting the value of their collateral and documents related to the claim that their collateral has been diminishing in the Title III bankruptcy proceedings under the Puerto Rico Oversight, Management and Economic Stability Act (Promesa) and the causes of the diminution.

In addition, the fiscal board asked the insurers for information related to estimates of the amounts they expected to pay in relation to claims made on their respective Prepa bond insurance policies.

The insurers said they were willing to share documents they decided were sufficient to show the value of the collateral and documents they intended to rely on to demonstrate the collateral's value is diminishing as a result of alleged mismanagement. However, other documents such as the amounts they expected to pay on bond insurance policies, was privileged.

In a ruling Tuesday, Judge Dein said the insurers will provide, within seven days, a list to the board identifying the internal documents the insurers intend to rely on in support on the lift-stay motion, to the extent they will seek to establish the value of collateral securing bonds issued by Prepa.

By Eva Lloréns Vélez on March 6, 2019

Caribbean News

Moody's Scolds New York City on Amazon, Then Gives It a Pat.

A puzzling turn of events for one of the municipal-bond market's biggest issuers.

Last Friday afternoon, as U.S. financial markets were winding down for the week, Moody's Investors Service pushed out an upgrade on New York City's $38 billion of general obligation bonds. Normally this would be a big deal for the $3.8 trillion U.S. municipal-bond market. After all, it's one of the largest borrowers in an otherwise highly diffuse market comprising villages, towns, local park districts and school systems.

Yet in some ways, this Moody's upgrade was a surprise. As recently as December, the company's outlook on New York's Aa2 rating was stable, generally an indication that analysts are comfortable with its current rank (in this case, the third-highest investment grade). The outlook never moved to positive. 1 The new Aa1 grade is one step higher than S&P Global Ratings and Fitch Ratings, which kept theirs at AA, the equivalent of Moody's previous score.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

March 5, 2019, 2:00 AM PST

Atlanta Issues Environmental Impact Bond for Green Infrastructure.

For a long time, says Amanda Hallauer, a watershed manager in Atlanta's Department of Watershed Management, Proctor Creek was an integral part of the neighborhoods that surround it. The creek, which runs from downtown Atlanta to the Chattahoochee River, "was healthy and an asset," Hallauer says. But as the upstream neighborhoods were developed with impervious surfaces, over decades, the downstream neighborhoods suffered the impacts of living alongside an increasingly polluted creek: stream degradation, sewage overflows, brownfields, blight, and disinvestment.It's an environmental justice hot zone as well," Hallauer says.

"It's an environmental justice hot zone as well," Hallauer says.

In 2013, the Urban Waters Federal Partnership named the Proctor Creek watershed as a priority location, and created partnerships among city, state, and federal governments and institutional organizations to coordinate solutions to environmental problems in the watershed. Now, the Department of Watershed Management is embarking on a series of green infrastructure projects along the creek that are aimed at reducing pollution and improving overall quality of life. To pay for them, the city is turning to a publicly offered environmental impact bond. The $14 million bond was officially released last month. (Atlanta won a grant from the Rockefeller Foundation last year to help design the bond.)

Continue reading.

NEXT CITY

BY JARED BREY

MARCH 11, 2019

[Santa Fe Wastewater Project Touted as a First.]

SANTA FE, N.M. — Late last month, Santa Fe city government achieved several firsts on the financial front.

It was the first city in New Mexico to sell green bonds, the first in the state to have bonds certified as green by an international bonding agency in London, and the first in the world to have the construction of an anaerobic digester financed by green bonds.

Anaerobic digesters are part of a $15 million "green" project at Santa Fe's wastewater treatment plant. (Eddie Moore/Albuquerque Journal)

That's no small thing, says Mayor Alan Webber.

"This is significant in the context of climate change, and what cities nationally and internationally are doing to achieve sustainability," Webber told the Journal, adding that the sale of green bonds for a $15 million upgrade at the city's wastewater treatment plant is in step with the 25-year sustainability plan the City Council adopted last year.

Continue reading.

ALBUQUERQUE JOURNAL

BY T.S. LAST / JOURNAL STAFF WRITER

Sunday, March 10th, 2019 at 12:02am

[Puerto Rico's Legacy Bondholders Claim Priority.]

General obligation bondholders splinter as Puerto Rico heads toward next debt restructuring

Hedge funds that own Puerto Rico general obligation bonds are fracturing into competing groups as they jockey for priority in the U.S. territory's financial restructuring.

Monarch Alternative Capital LP, GoldenTree Asset Management LP and Whitebox Advisors LLC have formed a committee to differentiate themselves from other general obligation bondholders whose claims are in dispute, according to court records filed Tuesday.

The committee's formation is partly a reaction to Puerto Rico's financial overseers, who are taking steps to favor some general obligations over others. Last month the oversight board running Puerto Rico's bankruptcy questioned the validity of $6 billion in general obligations, saying they layered more debt on the territory than its constitution allows.

Continue reading.

The Wall Street Journal

by Andrew Scurria

Updated Feb. 27, 2019 8:01 p.m. ET

Fitch Ratings: Illinois Governor's Budget Plan Would Make Insufficient Progress

Fitch Ratings-New York-26 February 2019: The fiscal 2020 executive budget plan recently introduced by Illinois' governor would not materially address the state's structural budget issues in the current fiscal year or the next, says Fitch Ratings.

Illinois' 'BBB' Issuer Default Rating (IDR) reflects an ongoing pattern of weak operating performance and irresolute fiscal decision-making. The Negative Rating Outlook reflects our assessment that near-term fiscal challenges will pressure the rating.

Fitch has indicated that we would lower the state's IDR if Illinois returned to a pattern of deferring payments for near-term budget balancing. Elements of the governor's proposal, including a $1.5 billion GO bill backlog borrowing that reduces but leaves largely unresolved the 2019 deficit and numerous one-time measures in fiscal 2020, appear to do that without a clear path toward long-term balance. The legislature will take up the executive budget, a multi-part pension proposal, and a possible capital improvements bill over the next several months, with the goal of enacting a final budget by June 30. Fitch plans to review the state's rating and Negative Outlook following passage of a final budget for fiscal 2020.

A return to single-party control could ease the legislature's budget review and adoption process this year, but unified control is not a panacea for Illinois. It also would not mean the end of the state's credit challenges, which have persisted regardless of the political make-up of the state government. Illinois faces significant fiscal problems that will likely take multiple years to fully address, but the executive budget does not provide enough clarity on how the state will deal with them.

The governor's fiscal 2020 budget plan relies heavily on non-recurring revenues and large savings from an uncertain pension proposal that poses risks for the state. The budget plan could also be challenged from the start if the sizable fiscal 2019 gap is not adequately addressed. The governor framed the $38.7 billion general funds ($77 billion all funds) plan as a bridge budget that would buy time until the state is able to implement his proposed graduated income tax and then achieve more substantive fiscal progress. This new tax requires a state constitutional amendment that must be approved by legislative super-majorities (which Democrats have in both chambers) and then by voters, also by a super-majority. Fitch estimates the earliest it could be approved would be in the November 2020 general election and notes that prospects for passage at both levels are uncertain.

Fiscal 2019's gap, estimated at $1.1 billion in the general funds, poses a particular challenge for the state, and the administration's budget plan leaves it largely unresolved. The governor proposes a $1.5 billion general obligation (GO) bond sale to reduce backlogged bills. $600 million of the proceeds would be deposited directly in the general revenue fund to pay down remaining interest accruing bills. After accounting for other adjustments to the budget, the general funds deficit declines modestly to an estimated $900 million. The remaining $900 million from the GO sale would be deposited in the Health Insurance Reserve Fund (outside of the general funds) to cover unpaid employee health insurance bills.

While potentially beneficial economically by trading high-interest backlogged bills for likely lower-cost GO debt, the state's liability profile would be essentially unchanged with the proposed GO sale. The administration's $1.1 billion fiscal 2019 deficit estimate reflects elimination of several items from the enacted budget that Fitch previously noted as questionable, including the sale of the Thompson Center and savings from pension buyouts.

Fitch anticipates the administration will continue working with agencies and the legislature to seek additional measures to address the fiscal 2019 general funds deficit. But those measures have not been articulated, and only four months remain in the year.

For fiscal 2020, the executive budget includes an estimated $1.1 billion in new revenues, with roughly one-third ($370 million) coming from non-recurring sources. Initial licensing fees from legalization of cannabis ($170 million) and sports wagering ($200 million) are assumed to accelerate into fiscal 2020 supported by related tax credits included in the budget plan. Separately, the governor also proposes a delinquent tax payment incentive (amnesty) plan estimated to generate $175 million in one-time revenue.

On a recurring basis, the most significant revenue source proposed by the governor is nearly $400 million from a new assessment fee levied on healthcare managed care organizations that should generate additional federal matching revenues under Medicaid. The combined revenues would be deposited outside of the general fund into the Healthcare Provider Relief Fund and used for Medicaid, thereby reducing the general funds support of Medicaid. The governor noted that other states including California and Ohio use similar fees.

Separately, the governor estimates sports wagering could generate between $77 million and $136 million annually in future years from a 20% tax on gross wagers – only $12 million of tax revenue is included in the fiscal 2020 budget. The governor did not provide an estimate of ongoing cannabis tax revenue.

The only material expenditure reduction is in the state's pension contributions which the governor proposes to decrease from the current year by $400 million to a general funds total of $7.1 billion, by implementing a five-part pension proposal outlined earlier this month (see "Fitch Ratings: IL Pension Plan Frames the Rating Picture; Budget Details Still Key," Feb. 19, 2019). This would also be $1.1 billion below the required contribution based on the 26-year closed amortization to 90% funding set out in current law.

$878 million in savings comes from a potentially costly extension of the pension amortization by seven years to 2052, while maintaining the comparatively weak 90% funding target. Without committing to full actuarially determined contributions, the re-amortization could cost the state more over time by perpetuating an already inadequate funding approach. $125 million derives from the administration's estimate of savings by extending the pension buyout programs permanently.

Over the long term, Fitch considers the proposed open-ended buyouts as indirect pension benefit changes that could gradually reduce the long-term pension liability but would require an ongoing funding source. The enacted fiscal 2019 budget anticipated issuance of up to $1 billion in GO bonds to fund pension buyouts and the governor proposes issuing the first tranche of $300 million by April. Absent a constitutional amendment, Illinois' ability to more directly reduce already-accrued retiree benefits appears sharply limited.

Education funding is a key area of growth in the governor's budget plan. K-12 funding under the evidence-based formula increases by $375 million (a robust 5.5%) to $7.2 billion. The minimum wage increase recently signed into law by the governor drives more than $100 million in proposed spending growth (combined state and federal) for providers paid through the state's Departments of Human Services and Aging. Like Pennsylvania's executive budget, Illinois' assumes $25 million in individual income tax revenue growth tied to increased economic activity supported by the higher minimum wage.

The governor also called for a capital improvements bill to fund new infrastructure projects but did not offer a specific plan or revenues to support new issuance. The state maintains between $3 billion and $4 billion in unused GO authorization for various capital projects, and the governor proposes using $1.1 billion over the next year. Illinois also has roughly $370 million in remaining authorization for the Build Illinois sales tax-backed bonding program.

The budget plan also does not make material progress on reducing liabilities as it trades accounts payable for GO debt to repay bills. By the end of fiscal 2020, the governor projects reducing year-end general funds accounts payable by 10% from fiscal 2018, or $900 million over two years, while issuing $1.5 billion in GO bonds to repay bills.

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Chicago's Next Mayor: How Wall Street Sees the Outcome.

- **Lightfoot, Preckwinkle poised for a runoff vote in April**
- **Bondholders closely watching for how pensions to be funded**

Chicago's election to replace Mayor Rahm Emanuel, a contest closely watched by Wall Street, is headed for a historic runoff between former federal prosecutor Lori Lightfoot and Cook County Board President Toni Preckwinkle.

As the nation's third-largest city contends with swelling pension fund costs that led Moody's Investors Service to cut its credit rating to junk in 2015, bondholders are eager to know how the next mayor will approach Chicago's fiscal problems. Neither of the candidates were backed in the run up to the election by the city's business community, which threw its support behind third place finisher Bill Daley.

"It was definitely a bit of a surprise," said Dennis Derby, a portfolio manager at Wells Fargo Asset Management. "We will be paying close attention over the next few months to learn more about the candidates and what this means for the credit."

Continue reading.

Bloomberg Markets

By Danielle Moran

February 28, 2019

New Policy Makes it Easier for Michigan Municipalities to Terminate Participation in MERS Defined Benefit Plan.

I. Background

As noted in a previous article, public pension systems across the country are experiencing significant funding shortfalls. Public employers in Michigan are no exception. The Michigan Department of Treasury reported that, as of March 12, 2018, more than 110 out of 490 local units of government had been preliminarily identified as having an underfunded pension plan or retirement health care plan, or both.

With the recent enactment of the Protecting Local Government and Retirement Benefits Act (commonly referred to as "Act 202"), public employers in Michigan are now required to report on their defined benefit plan funding status. A plan that is identified as underfunded must either apply for a waiver or create and comply with a corrective action plan to address its funding status.

In light of these issues, a municipality that participates in the Municipal Employees' Retirement System ("MERS") defined benefit plan (the "MERS Plan") may consider several options if its MERS Plan faces funding issues. For example, such a participating employer may consider freezing or reducing benefit accruals under the MERS Plan. However, doing so may accelerate the employer's amortization period, which could result in an increased annual contribution requirement.

A participating employer that faces funding issues may also consider terminating participation in the MERS Plan, and transferring its plan assets and liabilities to a non-MERS successor plan. MERS recently adopted a Termination Policy and Procedure that changed the requirements that must be met in order for a municipality to terminate participation in the MERS Plan. The Termination Policy became effective on March 15, 2018.

II. New Termination Policy

Prior to the adoption of the new Termination Policy, a participating municipality could not terminate participation in MERS unless (1) the municipality elected to terminate participation in the MERS Plan by an affirmative vote by qualified electors of the municipality; and (2) the participating municipality fully funded its MERS Plan liabilities.

The new Termination Policy allows a participating municipality to terminate participation in the

MERS Plan if it obtains a two-thirds vote of the members of the governing body of the municipality, provided that certain additional requirements are met. If the governing body elects to terminate participation in the MERS Plan and the other requirements are met, then MERS will transfer all assets, liabilities, and fiduciary duties to a qualified successor defined benefit plan.

Summarized below are some additional requirements that must be met in order for a participating municipality to properly terminate participation in the MERS Plan.

1. The topic of termination of participation in the MERS Plan must be an express agenda item on two consecutive regularly scheduled meetings of the governing body. The vote regarding that topic must take place at the second such meeting.
2. The participating municipality must provide written notice to MERS and to Plan participants of its intention to address the topic of termination. The notice must be provided to MERS at least one month before the first meeting. The notice must be provided to Plan participants at least 15 days before the first meeting.
3. MERS must be provided with a reasonable opportunity to provide information to the governing body at the first meeting outside of the regular public comment opportunity.
4. A signed and certified Termination Resolution must be provided to MERS within five days after its adoption by the governing body. The Termination Resolution must be in a specific format that is described in the Termination Policy.
5. Within 10 business days after the termination of participation in MERS, the municipality must provide written notice to all participants with an accrued Plan benefit. The notice must be in a specific format that is described in the Termination Policy.
6. Within 30 days after the termination date, or as soon as is reasonably practical, the MERS actuary will provide to the governing body a termination liability valuation. This valuation will be prepared at the participant municipality’s expense. This valuation will confirm the total assets and liabilities that will transfer out of the MERS Plan and into the successor plan. If (1) the participating municipality has had an emergency financial manager appointed; and (2) the municipality’s Plan is not funded at least 60%, then the municipality must contribute sufficient funds to the MERS Plan to establish a funding level of greater than 60% prior to leaving the MERS system.

III. Considerations

The new Termination Policy may be an attractive option to a municipality that is looking for the flexibility to select its own investment strategy and actuarial assumptions. A municipality that is considering this option should consult with legal, actuarial, and investment experts to fully understand its options and determine a strategy for moving forward.

by Julie LaVille Hamlet

February 27 2019

Foster Swift Collins & Smith PC

Fitch Ratings: Connecticut Teacher Pension Changes Costly, But Lower Fiscal Risks

Fitch Ratings-New York-28 February 2019: Connecticut is considering several proposals as part of its fiscal 2020-2021 biennial budget to contain the rising cost of pensions on state finances. Fitch Ratings views the proposed changes as meriting careful consideration in the context of the overall budget, particularly as they would alleviate significant fiscal risks to the state over roughly the next 12 years tied to scheduled, escalating contributions to the Teachers Retirement Fund (TRF). However, the funding changes to be made for TRF would increase costs to the state over the long run, in the same manner as funding changes made two years ago for the State Employees Retirement System (SERS). The fate of the proposals is not expected to affect Fitch's rating on the state, as Connecticut's pension burden is unlikely to diminish any time soon absent more extensive changes to funding practices or retirement benefits.

Connecticut's unfunded pension burden, among the highest of the states, contributes to its high burden of long-term liabilities and fixed costs and weighs on its credit quality; Fitch rates Connecticut 'A+'/Outlook Stable, a relatively low level for a U.S. state. As of fiscal 2017, data used in Fitch's 2018 state pension update, the state reported a net pension liability of $37 billion, or $48 billion when adjusted by Fitch to reflect a 6% discount rate, instead of the 8% rate used for TRF and 6.9% rate used for SERS. Debt and adjusted pensions together measured 28% of personal income, second highest among the states and well above the 6% states median as of fiscal 2017. Contributions for debt service, pensions and retiree health care together consumed nearly 21% of governmental spending.

The pension proposals outlined in the governor's executive budget would primarily affect TRF, with some modest additional changes to SERS. The key TRF change would align its amortization profile with that of SERS, which was agreed to in negotiations with organized labor in 2017. The unfunded liability for TRF would be re-amortized over a new, 30-year closed period through fiscal 2049, replacing the current closed amortization schedule through fiscal 2032, which has been in place since 1992.

Given TRF's 58% funded ratio as of its 2018 funding valuation, extending the amortization would avert the risk that the state general fund would have to absorb a contribution spike during the progressively shorter amortization window through fiscal 2032. Such a spike could occur if market returns fail to match the plan's current unrealistic 8% discount rate, or if other actuarial assumptions are not met. Simultaneously, the proposal would lower the TRF discount rate to 6.9%, with amortization payments recalculated on a level dollar basis, a less back-loaded payoff profile relative to the level percentage of payroll basis currently used by TRF. As with the 2017 changes to SERS, the trade-off for reduced near-term contribution risk would be much slower funding progress and higher contributions beyond fiscal 2032.

As part of the proposal, the state would establish a backup funding mechanism to satisfy a restrictive covenant contained in the state's $2.2 billion general obligation (GO) bond transaction from 2008, the proceeds of which were deposited to the TRF. The covenant requires the state to make full actuarial contributions to TRF, unless adequate provision for bondholders is made; the state has interpreted the covenant as limiting its ability to modify TRF's existing amortization schedule. The new pension proposal would establish a TRF special capital reserve fund (SCRF) at $381 million, equal to maximum annual debt service (MADS) for the 2008 bonds, with the initial SCRF deposit derived from the sizable income tax revenue windfall currently expected to be deposited in the state's Budget Reserve Fund. If drawn in the future, the SCRF would be replenished from net state lottery receipts, but given the GO pledge to bondholders, Fitch views the likelihood of a SCRF draw to be remote. The state's attorney general has opined that the proposal satisfies the covenant.

Beyond these provisions, the governor proposes shifting small portions of TRF normal costs from the state onto local governments, a proposal that appears modest relative to pension cost shifts undertaken by other states in recent years. Connecticut's towns make no employer contributions to

TRF at present, and teachers themselves contributed a fixed 6% of payroll to TRF from long before the Great Recession until Jan. 1, 2018, when it rose to 7%. By contrast, since fiscal 2016, county school boards in Maryland have borne all normal costs for teachers, replacing the state as the funder of newly-earned benefits; the state retains responsibility for unfunded liabilities. Since the Great Recession, pension systems in other states including California, Florida and Virginia have shifted larger shares of their rising contribution burdens to employees to shore up pension system funding and reduce fiscal pressure.

In contrast to New Jersey and Illinois – other states with high pension burdens – Connecticut has paid virtually full actuarial contributions for SERS and TRF for more than a decade, and the use of a closed amortization period has been a notable strength relative to the rolling amortization used to date for major New Jersey plans and the inadequate 90% statutory funding target for major Illinois pension plans. However, TRF's discount rate assumption, at 8%, has long been an unrealistic target for future investment returns, in Fitch's view, resulting in actuarial contributions that are inadequate to support long-term funding improvement, thus exposing the state to severe fiscal risk. The state's forecast assessment for TRF concedes this point, as it calculates that lowering the future targeted returns by only 110 bps, to the 6.9% level in the state's restructuring proposal, while maintaining the fiscal 2032 closed amortization target would spike TRF's contribution to about $3.4 billion, from the current $1.3 billion level. Fitch recalculates pension liabilities based on a 6% discount rate, if plans use a higher rate, to reflect Fitch's expectation that future pension asset performance is unlikely to match historical experience.

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New Mexico House OKs Public-Private Partnerships for Roads, Broadband Projects.

More than 35 states allow partnerships in which private entities can bid to help finance and build government-owned facilities.

New Mexico is not yet one of those states. But it could be if a bill that the House of Representatives approved Friday by a vote of 64-0 makes it into law.

House Bill 286, sponsored by five lawmakers from both political parties, would allow any government agency in the state to enter into a long-term agreement with a private entity to finance and build road and broadband infrastructure.

In this case, Rep. Patricia Lundstrom, D-Gallup, one of the bill's sponsors, told lawmakers the initiative could help with much-needed road, bridge and internet service in counties and municipalities where capital funds are limited.

"This is a really important bill for our state," she said.

Nobody chose to debate the bill.

During earlier committee hearings, Lundstrom explained that the bill would set up the partnerships under the New Mexico Finance Authority. It would help bankroll them.

The private groups wanting to bid for jobs in the state have to provide a cost-benefit analysis, a budget proposal and take part in public hearings to solicit feedback from community members affected by the projects.

To qualify, a project must take at least five years to complete.

Though the bill has no appropriation, its fiscal impact report says the Legislative Finance Committee recommends setting aside $40 million for a startup fund.

Lundstrom told lawmakers the new private-public setup would not include the building of toll roads.

The bill originally included a number of other possible projects, including schools and public facilities, before the sponsors narrowed it down to just roads and broadband — two areas, Lundstrom said, where the state needs help.

The bill goes next to the Senate for consideration.

Santa Fe New Mexican

By Robert Nott | rnott@sfnewmexican.com

Mar 1, 2019

MTA Bond Buyers Are Like New York Commuters Waiting for a Train.

- **Investors holding $40 billion in debt don't see fast change**
- **Congestion charge cash 'gives some relief' says MMA's Fabian**

What do municipal-bond investors have in common with New York commuters stuck waiting for a subway train? Both are likely to keep putting money into the embattled Metropolitan Transportation Authority.

Holders of some of the MTA's $40 billion of bonds also share the same skepticism as riders over the likelihood of a quick turnaround for the troubled agency, despite a preliminary deal released yesterday by New York City Mayor Bill de Blasio and Governor Andrew Cuomo to boost its finances.

And those investors are the ones who are likely to buy what could amount to $15 billion in new debt that would fund a revamp of the system's crumbling infrastructure.

Continue reading.

Bloomberg Markets

By Amanda Albright

February 27, 2019, 12:01 PM PST

NYC's $38 Billion of Debt Raised as Wall Street's Sway Wanes.

- **Moody's raised general obligation debt one notch to Aa1**
- **Cited diversification of the city's economy and lower costs**

Wall Street's hometown just got a credit-rating upgrade, in part because of an economy that has moved away from the industry that defines it.

The rating on about $38 billion in outstanding New York City general-obligation bonds was raised one step to Aa1, the second highest level, by Moody's Investors Service, the company said in a statement Friday. The upgrade — made ahead of a planned sale of about $1 billion debt next week — is Moody's first to New York since 2010, Mayor Bill de Blasio said in a statement.

The better rating comes just two weeks after Amazon.com Inc. announced it was scuttling plans to build a new corporate campus in Queens, a project that had promised 25,000 jobs in the city over the next two decades with an average salary of $150,000. At the time, Moody's warned that Amazon's decision would cost jobs and highlighted how politics and anti-business sentiment could derail development.

But Friday, Moody's said New York's strengthening and diversified economy has made the biggest U.S. city less reliant on the volatile financial services industry. The rating company also noted decreased costs for debt service, pensions and retiree health care.

New York's economy grew 3.9 percent in the fourth quarter of 2018 and Wall Street continued to perform strongly as a result of higher interest rates and lower corporate taxes. Income after taxes for the top six banks rose to almost $30 billion in the fourth quarter. Meanwhile, the city's private sector added 34,000 jobs in the quarter, the fastest rate in the last four years. The largest gains came in health care and education. By comparison, U.S. private sector employment grew 2.1 percent.

De Blasio's office said New York's current rating is the highest it has ever had from Moody's and may lower its debt service costs, enabling it to more efficiently borrow and finance capital and infrastructure projects.

"For the last five years, we've used the city's budget to improve the lives of New Yorkers," de Blasio said in a statement. "Moody's credit rating is validation of what we've always known: that you can be both a progressive and a strong fiscal manager."

Some investors worry that the upgrade will drive up the price of New York's bonds, some of which already carry yields close to AAA rated debt.

"It's already hard to find New York paper these days," said Jonathan Law, vice president and portfolio manager at Advisors Asset Management, which oversees about $325 million in municipals in separately managed accounts. "It's probably going to be even harder now especially if you are looking to capture some yield."

A New York bond due in 2028 traded Friday for a yield of about 2.3 percent, or 0.22 percentage point over the benchmark, according to data compiled by Bloomberg.

Bloomberg Economics

By Danielle Moran and Martin Z Braun

March 1, 2019, 12:16 PM PST Updated on March 1, 2019, 1:30 PM PST

— With assistance by Claire Ballentine

S&P to Pritzker: Pension Reform Only Way to Avoid 'Junk' Credit Rating.

A further decline could mean serious challenges in terms of the state's ability to borrow money. That should be of particular concern to Pritzker, whose proposed budget includes $2 billion in bonds to reduce the state's pension liability. Those bonds constitute one aspect of Pritzker's "five-point" pension plan, but S&P cautions that they may jeopardize the state's long-term pension funding levels. … S&P also finds dubious the remaining two points in the governor's plan: the sale of state assets and a pension buyout program.

Read the full article on: Illinois Policy Institute

Truth in Accounting

Vincent Caruso | February 25, 2019

Credit Downgrades, Lawsuits, Lost Revenue Could Hinder Pritzker Pension Plan.

To improve funding levels for the state's pension systems, Pritzker is proposing to transfer state assets directly into those retirement funds. Pritzker's budget proposal said a recently-created task force will "identify what assets from among the billions of dollars in state real estate and infrastructure could be directed to enhance the value of the state's pension funds.

Read the full article on: Illinois News Network

Truth in Accounting

Cole Lauterbach | February 25, 2019

[Chicago's Next Mayor Can't Dodge Tax Pain Needed for Pension Fix.]

- **14 candidates, few willing to consider hiking property levy**
- **Investors say refusal could worsen city's financial reckoning**

The leading candidates in Chicago's mayoral election on Tuesday have clashed over everything from reducing violent crime to fighting public corruption. Most agree on one thing: Property taxes in the nation's third-largest city are too high and shouldn't be raised.

But taking the most reliable source of revenue off the table could worsen Chicago's financial plight, especially as it struggles to come up with an additional $1 billion needed by 2023 to cover mandatory pension payments, say municipal-finance investors and analysts.

Mayor Rahm Emanuel, who took office in 2011 and isn't seeking re-election, put all four retirement plans on a path to solvency, boosting contributions to the funds by raising taxes and utility fees. From 2007 to 2016, Chicago's effective residential tax rate rose by more than 35 percent, according to a Civic Federation report published last month. That limits the political options for whoever wins an expected runoff on April 2.

"Emanuel's achievements came with a price — namely, tax fatigue," John Humphrey, head of credit research at Gurtin Municipal Bond Management, a Pimco subsidiary, wrote in a January research note. Those taxes and other local pension demands "have left residents with sticker shock," he added, "and the next mayor will confront increased tax fatigue as he or she looks to find revenues to ease the city's financial strain."

Property taxes are far and away the largest source of revenue for the retirement plans: Emanuel's most recent proposed budget allocated $1.36 billion toward pension funds, and more than $905 million of that came from such taxes.

Susana Mendoza, Illinois's comptroller and a leading mayoral contender, said in an interview that Chicagoans "feel suffocated to death" by property taxes.

Bill Daley, the younger brother of former Mayor Richard M. Daley, echoed those sentiments when he told local media that "we've got to begin to solve our long-term fiscal problems, but we cannot do it on the backs of homeowners and property taxes." He has committed to not raising those taxes, at least in the first year.

The one well-known candidate willing to voice support for a property-tax hike is Paul Vallas, a former city budget director. On his campaign site, he proposes $250 million in additional property taxes over the next five years capped at 5 percent or the rate of inflation, whichever is lower.

Junk Grade

The hikes under Emanuel made headway toward arresting mounting financial strains that caused Moody's Investors Service in 2015 to downgrade Chicago's bonds to junk grade. But his plan delayed a surge in payments until after he left office, and the city doesn't have the money at current funding levels to make that jump.

That means whoever emerges from the field of 14 candidates will likely have to raise property taxes, said John Miller, co-head of fixed income at Chicago-based Nuveen who oversees about $155 billion municipal bonds under management.

"I think if phased in appropriately and combined with other efforts, Chicago can probably handle another property-tax increase," Miller said.

The next mayor, who will take over in May, will see Chicago's required annual contribution to the city's four pension funds double from about $1 billion in 2018 to $2.1 billion in 2023, city documents show.

The pension bills will soar because the city will have to pay what actuaries say is needed into the public safety funds starting in the 2020 budget year and in 2023 for the municipal employees' and laborers' plans. That means not only covering what it owed for newly earned benefits, but making up for the shortfall that resulted from years of not paying the full amount.

Unless Chicago's economy continues to expand at a robust rate to generate natural growth in other sources, such as sales taxes and fees, additional tax increases will be needed to fund the required pension contributions over the long term, Moody's said in a report.

Sports Betting

Two potential sources of new money for Chicago would be its share from legalizing sports betting and marijuana — proposals included in Governor J.B. Pritzker's budget announced last week. The state legislature is controlled by Pritzker's fellow Democrats, but even if those measures passed they wouldn't fill the pension hole.

"The issues that they're talking about — ranging from a casino to marijuana — I don't think that'll be enough," said RBC Capital Markets municipal-debt strategist Brian Olson. "It has to be comprehensive. It has to be taxes, it has to be cuts."

In the months since Emanuel's surprise announcement that he wasn't going to run for a third term, he has advocated for the sale of $10 billion in pension obligation bonds — debt issued to infuse cash into the pension system on the bet that the returns generated will outpace the interest payments to investors. The proposal has had mixed reviews among candidates and the bond market alike.

Bill Daley, who served as chief of staff to President Barack Obama, said such a proposal "ought to be on the table" but he remains skeptical of the plan. "It's all great as long as rates stay good," he said. "There's a risk-reward." Daley has said the best way to solve the city's pension problem would be to alter the state's constitution to allow existing benefits for public employees to be reduced.

relates to Chicago's Next Mayor Can't Dodge Tax Pain Needed for Pension Fix
Susana Mendoza.Photographer: Seth Perlman/AP Photos
Mendoza has advocated for a bond deal, though not one as large as the $10 billion sale Emanuel floated. She called that amount "overly aggressive." Instead, she said a lower-risk plan of $2 billion to $3 billion or medium-risk one of $5 billion to $6 billion should be presented to the voters. "It's not an ideal option, but we don't really have other sources of immediate cash flow," she said.

Another prominent candidate, Gery Chico, said in an interview that he'd been hesitant to bond out the liabilities, but after speaking with bankers "they've made me more comfortable with it as a tool."

Whatever temporary tool is used, Chicago's pension burden will increase and current contributions will likely fail to meet the required amounts. So the next mayor likely will face an unpalatable decision, said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago.

"The liability isn't going to go away, and you'll need additional revenue," Belsky said. "The most reliable source of revenue is the property tax."

Bloomberg Markets

By Danielle Moran

February 25, 2019

— With assistance by John McCormick, and Elizabeth Campbell

[Fitch Ratings: Alaska Governor's Budget Proposals Would Weaken Municipal Credit Quality]

Fitch Ratings-San Francisco-22 February 2019: Fitch Ratings believes the governor of Alaska's fiscal 2020 budget proposals that affect local governments and alter municipal property tax laws could have significant negative impacts on the credit quality of local municipalities throughout the state if enacted. Fitch does not anticipate immediate rating changes due to the legislation because prospects for passage are uncertain. Fitch will monitor progress of the legislation and may take rating action if passage begins to appear more definite.

The budget proposal eliminates the state's school bond debt reimbursement program for local governments and cut unrestricted general fund spending for schools by 24%. A second, related proposal would shift property tax levies on oil and gas infrastructure from the local level to the state.

While Alaska's schools are governed by school boards, boroughs levy property taxes on their behalf, and boroughs and school districts share operating tax caps. Fitch believes enacted reductions in state formulaic school funding could pressure borough policymakers to backfill some district revenue losses, creating budget stress for borough governments and potentially crowding out other services.

The loss of school bond reimbursement would prompt immediate increases in debt service property tax rates that support schools' unlimited tax general obligation (GO) bonds. Higher debt service tax rates could make it more difficult to offset operating revenue losses even for jurisdictions that are not at their tax caps and could decrease public appetite for school bonds to meet ongoing capital needs.

The change in taxation of oil infrastructure would be of particular concern for the North Slope Borough ('AA'/Stable), which relies almost entirely on an energy-dominated property tax levy. The North Slope Borough collects about 85% of the $440 million in revenue that could be shifted to the state from local governments under the proposal. North Slope's estimated revenue is about $372.1 million, or 93% of its 2018 property tax revenues and 86% of total general fund revenues, with the exact loss dependent on which assets are classified as oil infrastructure.

The vast and sparsely populated borough covers the state's Arctic coast and Prudhoe Bay oil fields. Outside of the energy sector, the borough's small, remote communities have very limited tax bases and economies. Fitch believes the borough is unlikely to be able to reduce spending to match revenues available under the governor's plan, and earnings on its large permanent fund (which had a corpus of $708 million at the end of fiscal 2018) would be insufficient to replace the lost revenues on an ongoing basis.

The borough's rating incorporates the narrow, highly concentrated tax base as an asymmetric risk factor. However, the rating does not incorporate the risk of a sudden change in state tax law of the sort proposed by the governor. The borough had about $162.7 million of GO bonds outstanding at the end of fiscal 2018 and keeps debt maturities very short.

The impact of the change in the property tax regime would be notable but much less dire for other local governments in the state. For instance, the Fairbanks North Star Borough (IDR 'AA'/Stable), which has the second-highest exposure among rated entities, collected about $11.2 million in oil infrastructure property taxes in fiscal 2018, approximately 10% of its overall general fund revenue. Anchorage, the state's largest city, has a much more diverse tax base with less than 0.5% of revenues derived from property taxes on energy infrastructure.

The governor has also proposed amendments to the state's constitution in support of his initiatives. For details, see "Fitch Ratings: Alaska Proposals to Limit Budget Flexibility Could Pressure Rating", published Feb. 5, 2019.

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Puerto Rico Bondholders Fume for Being Shortchanged in Swap.

- **Individual investors waiting on payment of odd-lot bonds**
- **Execution of deal a 'complete abomination,' investor says**

Money manager Glenn Ryhanych sat in his office in Virginia, waiting for a final resolution of bankrupt Puerto Rico's nearly two-year saga with its $17.6 billion of sales-tax-backed bonds. He got a shock instead.

On Feb. 12, the island exchanged the old bonds for new ones of lesser value, allowing it to cut the amount of the debt outstanding by nearly a third. But the transaction brought another surprise to investors like him: Because the new bonds were issued in only $1,000 increments — and any odd lots were rounded down — the amount they received was in many cases less than they were expecting. Ryhanych estimates that's leaving him short about $700,000.

"When we saw everything coming in, the way it was coming in, and the rounding down we were like 'oh my God,"' Ryhanych, president of BlueList Partners, said about seeing the changes in his clients' accounts following the debt swap.

The owners of the debt knew they'd be getting less than what Puerto Rico promised when it first issued its sales-tax bonds years ago and a majority signed off on the deal in the government's bankruptcy, which began in May 2017. The deal called for the new debt to be issued at a rate of 93 cents on the dollar to holders of senior-lien bonds, with owners of junior securities receiving 56 cents. They weren't expecting to take additional losses if the stake they were owed wasn't evenly divisible by $1,000.

Bondholders may soon receive the rest, according to a court filing, so the stress of the past two weeks could just be a temporary hiccup in a type of debt restructuring rarely seen in the municipal-bond market, where defaults and bankruptcies are extremely rare.

"I've been doing this for 25 years and, at least on the surface, the execution of this thing with the individual or retail investor in mind was a complete abomination," said Ryhanych, who oversaw $11 million of senior sales-tax bonds before the debt exchange.

A court document posted Friday on the Municipal Securities Rulemaking Board's website said that Depository Trust Co., the depository firm distributing the bonds and cash to broker dealers, is now allowed to alter the threshold for rounding down. Broker dealers may also provide cash to cover amounts below the threshold.

A spokesman at Bank of America Corp., the manager of the restructuring, declined to comment, as did a spokesman at Stifel Financial Corp. Miller Buckfire, a unit of Stifel, served as a financial adviser to a group of senior bondholders.

Puerto Rico's Fiscal Agency and Financial Advisory Authority said that it is aware that certain bondholders have not yet received the correct initial distributions and that Depository Trust Co., has rectified the situation through allocations to broker dealers, the agency said in an email Friday.

"To the extent bondholders have questions regarding when cash and bond distributions will be reflected in their accounts, we urge them to contact their brokers or account managers regarding their specific situations," Christian Sobrino, executive director for Puerto Rico's Fiscal Agency and Financial Advisory Authority said in an email.

A federal board that oversees Puerto Rico finances and its bankruptcy process supports the efforts of all parties to address promptly any distribution issues," Matthias Rieker, a spokesman for the board, said in an email Friday.

Before Friday's statements, some brokerage firms had planned to pool together bonds that fall below $1,000, called fractional bonds, and sell them to raise cash that they'll then direct to their clients who are still waiting to reach their full recovery amounts.

The confusion had left investors doubting if they'll get the cash for their fractional shares, Ryhanych said. And because the new sales-tax bonds don't yet have a credit rating, he wasn't sure if pooling the bonds could raise enough cash to make up the difference.

Bloomberg Markets

By Michelle Kaske

February 22, 2019

S&P Charter School Brief: Colorado

As of Feb. 19, 2019, S&P Global Ratings maintains 30 public ratings on Colorado charter schools. Colorado has the second-highest number of rated charter schools, after Texas. Colorado was the third state in the U.S. to enact a charter school law, and in 1993, the state's first two charter schools opened their doors.

Continue Reading

Feb. 19, 2019

S&P: Pennsylvania 2020 Budget Proposal Signals Near-Term Credit Stability

S&P Global Ratings believes Pennsylvania's fiscal position has stabilized, at least for the near term, given budget estimates for fiscal 2019 and the executive budget proposal for fiscal 2020. Stronger economic growth and slower increases in required pension contributions have helped narrow the commonwealth's budget gaps.

Continue Reading

Feb. 19, 2019

New Jersey Appellate Division Rules Public Notices in Land Use Cases Need Clear Description of All Uses Proposed.

On February 5, the New Jersey Appellate Division decided the case of *Lakewood Realty Associates v. Lakewood Township Planning Board & RD Lakewood LLC*. The decision is noteworthy because it further clarifies the extent to which the public notice for a development application must describe the proposed uses within a project.

RD Lakewood LLC sought site plan and bulk variance approval from the Township of Lakewood Planning Board for a mixed-use development that included a hotel and a bank. The proposed hotel would also contain a restaurant, bar and banquet hall. During the course of the public hearing before the planning board, Lakewood Realty Associates (LRA) objected to the application. In spite of LRA's objections, the planning board unanimously approved the application. Thereafter, LRA filed a prerogative writ action challenging the board's decision.

At the trial court level, LRA argued, among other things, that the public notice for the development application was defective because it did not indicate there would be a restaurant, bar and banquet hall associated with the hotel. The public notice simply stated, in part, that the applicant proposed "to construct a hotel as well as a bank which are both permitted uses within said zone." The trial court ruled in favor of RD Lakewood, determining, among other things, that the notice stating a hotel was proposed was sufficient given that the architectural plans on file with the planning board clearly indicated the proposed hotel would also include a restaurant with a bar, banquet facilities and meeting rooms, which the judge noted "are common amenities in a hotel of this size associated with a national brand."

LRA subsequently filed an appeal challenging the trial court's decision. After reviewing the facts and applicable law, the Appellate Division overturned the trial court's decision, finding that the public notice did not adequately describe the proposed use. The Appellate Division deemed the notice deficient because it did not describe the hotel's restaurant, banquet facilities and intention to obtain a liquor license, which could raise particular public concerns. Citing Pond Run Watershed v. Hamilton Township, the Appellate Division noted that traffic and public safety issues associated with a facility serving intoxicating beverages would reasonably be of concern to surrounding residents and property owners. Moreover, the Appellate Division took judicial notice that not all hotels contain a restaurant with a bar and a liquor license, nor do they all operate a banquet facility or a conference center. The Appellate Division reviewed the definitions in the Lakewood Zoning Ordinance of "hotel" (which did not include reference to banquet facilities, meeting rooms or restaurants) and "restaurant" and determined the notice should have disclosed that the applicant envisioned the hotel to function as a conference center, which was also a permitted use in the zone where the property was located. The Appellate Division specifically stated that "[a]ppropriate public notice serves an important gatekeeping function in land-use matters. It is not sufficient for an applicant to circulate and publish an uninformative and vague notice and expect local residents to go down to municipal offices to inspect the plans in order to ascertain the critical features of the proposal."

The lesson here is that public notice for a development project should identify all the significant uses associated with it—not just the principal use. The decision confirms that uses typically deemed as customary and incidental to a principal use should also be identified in the public notice. Moreover, an applicant cannot rely on making plans available for public inspection that include additional information about a proposed development to save an otherwise defective notice that does not properly describe the significant components of a proposed use. The Appellate Division's decision further suggests that any application proposing a use that involves the serving of alcohol, even if ancillary to the principal use, should identify such use in the notice.

This alert serves only as a summary of the case. For more information or questions, please contact the authors or any member of the Day Pitney real estate team.

Publisher: Day Pitney Alert

February 11, 2019

Day Pitney Author(s) Craig M. Gianetti Thomas J. Malman Nicole M. Magdziak

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[Hedge Funds See Windfall From Bets on Puerto Rico After Storm.]

- **Debt swap provided seven times more than post-hurricane lows**
- **New sales-tax debt traded heavily Friday as some lock in gains**

In late 2017, while Puerto Rico was reeling from Hurricane Maria, the government's bonds went into a free fall as Wall Street speculated that much of the bankrupt island's debt would need to be forgiven, leaving some of it trading for pennies on the dollar.

But hedge funds including GoldenTree Asset Management, Tilden Park Capital Management and Taconic Capital Advisors started plowing hundreds of millions of dollars into the U.S. territory's subordinate sales-tax-backed bonds — a well-timed wager that's delivering big gains.

Puerto Rico's restructuring of $17.5 billion of debt this week allowed investors to exchange sales-tax bonds with the weakest claim to the revenue for 56 cents on the dollar. That's seven times more than what they traded for in December 2017, after President Donald Trump rattled the market by suggesting that Puerto Rico's finances were so devastated that its debts would need to be written off completely in court. Owners of senior-lien sales-tax bonds recovered 93 cents on the dollar.

Continue reading.

Bloomberg Markets

By Michelle Kaske

February 15, 2019, 9:12 AM PST

[2019 Ohio Infrastructure Funding: How to Get It and Spend It Wisely]

On January 14, 2019, the President signed the [Water Infrastructure Improvement Act] (H.R. 7279), granting municipalities new statutory tools to affordably confront expensive infrastructure challenges using Integrated Planning.

Bricker & Eckler, McMahon DeGulis and Muskingum Watershed Conservancy District are hosting a free series of public infrastructure planning events to discuss these tools and the integrated planning process.

This program will be offered in various Ohio locations February through May. For more information, including schedule, location details and to register, visit the [event page].

Bricker & Eckler LLP

February 14, 2019

[S&P: Proposed New York State Budget Cuts AIM Funding, May Spell Long-Term Financial Stress For Municipalities]

New York State's proposed fiscal 2020 budget contains funding changes for municipalities, that, if passed, could create revenue volatility over the long term. The proposed modifications don't change S&P Global Ratings' overall near-term view of the municipalities' credit quality…

Continue Reading

Feb. 6, 2019

[Can Cities Set a Local Minimum Wage? Florida Supreme Court Says No.]

A growing number of jurisdictions have overturned local minimum wage ordinances and the state of

Florida has now waded into the minimum wage waters.

Florida has a long-standing state statute that expressly prohibits municipalities from enacting local wage ordinances. Section 218.007 provides that **“a political subdivision may not establish, mandate, or otherwise require an employer to pay a minimum wage, other than a state or federal minimum wage.”** While the statute does permit local wage ordinances for local government employees, a Florida municipality cannot pass legislation that seeks to impose a higher wage upon private employers operating within the city/county.

In 2004, Florida voters approved a state constitutional amendment that established a higher, statewide minimum hourly wage. The constitutional amendment authorized the state of Florida to increase Florida’s minimum wage above the federal minimum wage established by the Fair Labor Standards Act. However, the amendment did not supersede (or even address) Section 218.077 with regard to whether local municipalities could establish their own minimum wage scales. Pursuant to this constitutional amendment, the Florida Department of Economic Opportunity is charged with adjusting the state’s minimum wage rate annually based on the Consumer Price Index. Effective January 1, 2019, the current Florida minimum wage is $8.46/hour.

In June 2016, the city of Miami Beach enacted a local ordinance establishing a minimum hourly wage significantly exceeding the current Florida minimum wage. Attempting to rely on Florida’s constitutional amendment, the city of Miami Beach approved a local minimum wage ordinance for all employers operating with the city. The ordinance, which was scheduled to take effect on January 1, 2018, established both a local minimum wage of $10.31/hour and annual increases to $13.31/hour effective January 2021.

The Florida Retail Federation, Florida Restaurant & Lodging Association, and Florida Chamber of Commerce promptly filed a lawsuit on the grounds that the Miami Beach ordinance was preempted by state statute. Judges in both the Miami-Dade Circuit Court and Florida’s Third District Court of Appeals agreed and that struck down Miami Beach’s local wage ordinance.

Even more interesting is that the Florida Supreme Court initially agreed in August 2018 to exercise jurisdiction and hear the city of Miami Beach’s appeal. However, last month three of the justices who had voted in favor of hearing the case retired. On February 5, 2019, the Florida Supreme Court issued a perfunctory order that stated simply: “Upon further consideration, we exercise our discretion and discharge jurisdiction. Accordingly, we hereby dismiss this review proceeding.” As a result, the Florida appellate court’s decision invalidating Miami Beach’s local wage ordinance stands.

The Florida Supreme Court’s decision does not bar other Florida municipalities from establishing their own respective minimum wages. However, the ruling certainly establishes that any such ordinances very likely would be struck down on preemption grounds just like the city of Miami Beach.

by Jennifer Williams

February 14, 2019

Cozen O’Connor

92nd Arkansas General Assembly/SB 289: Municipal Jurisdiction Over Utilities.

Senate Bill 289 has been introduced which would amend certain provisions of Chapter 200 (Municipal Authority Over Utilities) of the Arkansas Code.

The bill's sponsors include:

- Senator Jane English (North Little Rock)
- Representative Mark Lowery (Maumelle)
- Representative Carlton Wing (North Little Rock)

Provisions of the bill include an amendment to Ark. Code § 14-200-101(a) addressing municipal jurisdiction over utilities. This definition is revised to include water utilities, adding it to electric, gas, sewer, or telephone companies.

The bill also amends Ark. Code 14-200-101(b)(1)(A)(iii) addressing franchise fees for utilities. The word "public" is added, along with a revision addressing the cap on the franchise fee.

The bill also addresses Ark. Code § 25-30-319(b) regarding franchise fees by deleting (b) and adding the following language:

A participating public agency shall not require a public body created under this subchapter to pay a franchise fee under authority of other law.

A copy of the bill can be found here.

by Walter Wright

February 13, 2019

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

Public Design-Build Projects in Arkansas (Part Two): Statutory Procurement Authority.

Part One of this series focused on the Arkansas Department of Transportation's ("ARDOT") first major project using the design-build project delivery method – 30 Crossing. Since then, ARDOT has awarded the 30 Crossing Project to a Kiewit Infrastructure South and Massman Construction joint venture. However, the question remains: what statutory authority does ARDOT have to procure construction through design-build? Furthermore, is there statutory authority to use design-build for other types of public construction? Part Two answers these questions, discussing when the State of Arkansas or one of its subdivisions may use a single company to provide the architecture, engineering, and construction for a project.

ARDOT, through the highway commission, has statutory authority to use "[q]ualification-based, design-build services" for "design-build project contracts" under A.C.A. § 27-67-206(j)(2)(A)(i). After receiving statements of qualifications (or proposals without competitive bidding), ARDOT may "[a]ward a project contract on a qualification basis that offers the greatest value for the state… and [c]ontract with an authorized entity to design, construct, improve, and maintain qualified projects," pursuant to subsections C and D.

Excluding ARDOT, Arkansas's state agencies may use design-build under Arkansas's P3 legislation. Under A.C.A. § 22-10-103(10)(B)(ii), a state agency has statutory procurement authority, provided the project is "designed and built, in whole or in part, by a private entity."

A school district may also use design-build for school buildings. Under A.C.A. § 19-11-807(b)(1), any "school district may use design-build construction as a project delivery method for building, altering, repairing, improving, maintaining, or demolishing any structure, or any improvement to real property owned by the school district."

At the end of the competitive bidding provisions of the Arkansas Code, municipalities and water authorities constructing wastewater treatment, storm water treatment, or water treatment plants have been given authority to use design-build as a project delivery method under A.C.A. § 22--
-203(j). As stated in subsection 2, the municipality or water authority "contracts may include provisions for the design, financing, construction, repair, reconditioning, replacement, operation, and maintenance of the system, or any combination of those services and functions."

There are several options for Arkansas design-build public projects, depending on the project type. As the statutes reveal, however, compliance with the specific procurement requirements may be cumbersome. Although Arkansas does not have comprehensive design-build legislation, this State is moving in the right direction.

by Larry Watkins

January 3, 2019

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

[New Sales Tax Bonds Issued Under Latest Puerto Rico Debt Restructuring.]

SAN JUAN, Feb 12 (Reuters) – Puerto Rico's Sales Tax Financing Corporation, known as COFINA, issued $12 billion of new bonds on Tuesday as a federal court-approved deal between the bankrupt U.S. commonwealth and its creditors took effect, according to island officials.

The plan of adjustment approved by U.S. District Court Judge Laura Taylor Swain on Feb. 4 restructures about $17 billion of sales tax-backed debt, leaving senior bondholders to recover 93 percent of their original investment, while junior bondholders recover only 56 percent. The island, which is trying to restructure about $120 billion of debt and pension liabilities through a form of municipal bankruptcy that Swain is overseeing, previously won court approval for a consensual deal with creditors over about $4 billion of debt related to its Government Development Bank (GDB).

According to Puerto Rico's federally created oversight board, the COFINA plan will slash debt service on the sales tax-backed debt by $17.5 billion over nearly 40 years, saving the island an average $456 million annually.

Future sales tax revenue previously pledged exclusively to COFINA will be split, with 53 percent going to COFINA bondholders and 46 percent flowing to the commonwealth government.

The new COFINA bonds were listed on the Municipal Securities Rulemaking Board's disclosure website with maturities in 2047 and 2054.

“Today’s achievement is proof that the Government of Puerto Rico can accomplish creative restructuring solutions that safeguard the interests of the people of Puerto Rico,” Governor Ricardo Rosselló said in a statement.

The oversight board said on Tuesday it has certified a fiscal 2019 budget for COFINA that includes money to cover the entity’s past and future operating expenses.

S&P Global Ratings said last week that the credit quality of the restructured COFINA bonds is tied to Puerto Rico’s long-term credit picture.

“While the COFINA settlement provides a degree of certainty with respect to the commonwealth’s balance sheet, the absence of audited financial statements and continuing uncertainty around retirement obligations stands in the way of our ability to assess its long-term creditworthiness,” S&P said.

The oversight board has turned its attention to the island’s core debt of roughly $13 billion of general obligation bonds and almost $50 billion in unfunded pension liabilities.

Last month, the board asked Swain to invalidate more than $6 billion of GO bonds, contending the debt had been issued in violation of the Puerto Rico Constitution.

(Reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan Editing by Matthew Lewis)

Illinois Housing Development Authority Launches New Initiative to Attract Bond Investors in 2019.

Illinois Housing Development Authority issued the following announcement on Feb. 8.

The Illinois Housing Development Authority (IHDA) launched a new initiative today aimed at attracting more investors to its municipal bond offerings.

IHDA introduced a new investor relations site providing access to over 1,000 pages of data and documents, providing a single location for investors to access their credit fundamentals: www.buyihdabonds.com.

“It’s our fiduciary responsibility to raise capital at the lowest possible cost to taxpayers,” said Audra Hamernik, IHDA’s Executive Director. “With hundreds of municipal bond sales each week, we know investors have a choice as to where to invest. Our commitment to transparency and disclosure will enable IHDA to reach more investors and optimize long-term relationships with the buy-side, helping to better price our bonds. We are happy to announce that we will kick-off IHDA’s investor platform with the release of a Preliminary Official Statement this week with respect to single-family bonds financing single-family mortgage-backed securities, the proceeds of which will be used to finance first time homebuyers across Illinois.”

Regulators recommend a strong investor relations program for issuers. Academic research also shows improved disclosure leads to lower borrowing costs, which will improve IHDA’s ability to finance affordable homeownership and rental opportunities throughout the state.

"We're extremely proud to partner with IHDA," said Colin MacNaught, co-founder and CEO of BondLink, which powers the state's investor relations site. "Sophisticated issuers like IHDA understand the edge of heightened transparency when selling bonds. We're excited to help drive additional investor demand for the state's bond programs, and those of its related agencies."

About the Illinois Housing Development Authority

IHDA (www.ihda.org) is a self-supporting state agency that finances the creation and the preservation of affordable housing across Illinois. Since its creation in 1967, IHDA has allocated over $18 billion and financed approximately 255,000 affordable housing units for residents of Illinois.

About BondLink

Led by founders Colin MacNaught, CEO, and Carl Query, CTO, BondLink's cloud-based IR platform provides efficiencies to issuers and investors in the $4 trillion municipal bond market. Since the launch of its first investor platform two years ago, BondLink has expanded its network across more than 25 states, as well as the District of Columbia and the U.S. Virgin Islands. Headquartered in Boston, BondLink is backed by top investors, including Franklin Templeton Investments, one of the largest municipal bond fund managers in the country. BondLink is also the founder of the world's first investor relations conference for the municipal bond industry. For more info, visit www.bondlink.com.

Illinois Explores Ways to Pay Down Pension Debts.

- **Governor mulls steps to reduce unfunded retirement liability**
- **Pension strains have pushed Illinois rating to cusp of junk**

Illinois needs $134 billion and may hold a yard sale to raise it.

Governor J.B. Pritzker, a Democrat who took office last month, is turning to business experts to figure out how to chip away at the massive debt to the state's employee retirement system that's left the government's credit rating dangling just one step above junk. Among the options it will weigh: How to use the state's other assets — like buildings and roads — to pump more money into the pensions.

No state is struggling more with its retirement obligations than Illinois, but the steps it's exploring aren't unprecedented. New Jersey handed its lottery system over to its pensions, ensuring that politicians won't shortchange them as badly as they have in the past, and Connecticut has considered following suit. Arizona sold its capitol to raise cash after the last recession. And former California Governor Arnold Schwarzenegger proposed selling 11 state office buildings, though the plan was scrapped by his successor.

Continue reading.

Bloomberg Markets

By Danielle Moran, Claire Ballentine, and Martin Z Braun

February 12, 2019, 10:39 AM PST

Illinois Governor Eyes Bond Sale, Tax Hike to Save Pensions.

Illinois Governor J.B. Pritzker is considering a broad plan to inject cash into the state's struggling pensions by selling $2 billion of bonds, implementing a progressive income tax and using billions of dollars of government assets to reduce the massive debt owed to the retirement system.

At the same time, the Democrat, who took office last month, wants to extend the state's timetable for paying down the debt by seven years to prevent swelling pension payments from crowding out spending on other priorities, Deputy Governor Dan Hynes said in a statement. His administration also wants to encourage workers to accept early retirement buyouts.

The plan provides the greatest detail yet for how Pritzker will contend with the financial challenge posed by Illinois's $134 billion unfunded liability to its workers retirement plans. The shortfall built up from years of failing to set aside enough money to cover all the promised benefits, leaving the government facing escalating annual contribution payments. That has left Illinois's credit rating dangling just one step above junk, lower than any other state, and caused investors to demand large penalties on its bonds.

Hynes said that the administration would use the proceeds of any bond sale to increase its payments to the retirement system, not as a means of covering its annual contribution. That would prevent Illinois from repeating the mistake it made more than a decade ago, when it issued $10 billion of such debt only to see the shortfall reemerge.

'We can lower the cost of our pension debt and inject cash immediately into the system by issuing a small-scale pension bond of about $2 billion,' Hynes said in a statement. 'The bond proceeds would be used for no purpose other than to be deposited directly into the funds — and would be used only for paying down our more expensive pension liabilities. No skimming off the top to pay this year's pension payment.'

The pension shortfall is the biggest financial problem facing Illinois. With the state mired in partisan gridlock for much of the past four years under Republican Governor Bruce Rauner, Wall Street analysts have seen the return to a unified Democratic government as providing Pritzker with an opportunity to contend with issues that eluded his predecessor.

Pritzker has formed a panel of business experts to look into ways to use the state's assets — like buildings and roads — to raise cash for the pension system, and Hynes said some revenue generated by scrapping the flat income tax in favor of a progressive one would also be directed there.

While a graduated income tax is the norm in most states, Illinois has a constitutionally-protected flat tax, which would require a voter-approved amendment to implement. If the change is successfully enacted, Hynes said Illinois would increase its contributions to the retirement system by $200 million a year over what it's legally obligated to pay.

'The state government needs to show the people they are behaving responsibility, because if they don't, any proposal that requires a statewide vote will go down because they don't trust them,' said Howard Cure, head of municipal bond research at Evercore Wealth Management. 'Pritzker doesn't have a lot of time to prove his worth.'

Friday, 15 February 2019 10:43 AM

Puerto Rico's Bleak Finances Brighten with Debt Restructuring.

Four years after Puerto Rico defaulted on billions of dollars in bonds, a federal judge has approved a debt restructuring deal that will help bondholders recoup their losses and help the island's government gain credit – both with investors and Puerto Ricans.

A federal bankruptcy judge approved a major debt restructuring plan for Puerto Rico on Monday in the first deal of its kind for the United States territory since the island's government declared nearly four years ago that it was unable to repay its public debt.

The agreement involves more than $17 billion worth of government bonds backed by a sales-and-use tax, with officials saying it will help the government save an average of $456 million a year in debt service. The deal allows Puerto Rico to cut its sales-tax-backed debt by 32 percent but requires the government to pay $32 billion in the next 40 years as part of the restructuring.

Senior bondholders, who hold nearly $8 billion, will be first to collect, receiving 93 percent of the value of the original bonds. Junior bondholders, many of whom are individual Puerto Rican investors and overall hold nearly $10 billion, will collect last and recover only 54 percent.

"Puerto Rico has taken an important step toward its total financial recovery," Gov. Ricardo Rossello said in a statement. "This represents more than $400 million annually that will be available for services in critical areas such as health, education, pension payments, and public safety, in compliance with other obligations."

The deal was previously approved by bondholders but prompted hundreds of people to write and email Judge Laura Taylor-Swain, who held a hearing on the issue nearly three weeks ago, to express concerns about the government's ability to make those payments and the effect it will have on public services. In her ruling, she wrote that she reviewed and carefully considered all those messages before making a decision.

"Many of the formal and informal objections raised serious and considered concerns about the Commonwealth's future ability to provide properly for the citizens of Puerto Rico who depend upon it," she wrote. "They are not, however, concerns upon which the Court can properly act in making its decision … the Court is not free to impose its own view of what the optimal resolution of the dispute could have been."

The judge said that the deal represents a reasonable compromise and that further litigation would present a "significant gamble" for Puerto Rico. The island is mired in a 12-year-old recession and struggling to recover from hurricane Maria as the government tries to restructure a portion of its more than $70 billion public debt load.

A US government report issued last year said Puerto Rico's public finance problems are partly a result of government officials who overestimated revenue, overspent, did not fully address public pension funding shortfalls, and borrowed money to balance budgets. The Government Accountability Office also reviewed 20 of Puerto Rico's largest bond issuances over nearly two decades and found that 16 were issued solely to repay or refinance debt and fund operations, something many states prohibit.

Ms. Taylor-Swain's ruling said the compromise is "admittedly, deeply disappointing to countless citizens of Puerto Rico and investors in Commonwealth bonds."

A federal control board that oversees the island's finances praised the ruling, saying in a statement that the bond restructuring will help revive Puerto Rico's economy.

"The deal demonstrates … our determination to resolve Puerto Rico's debt crisis and establish sustainable foundations for [the] island's economic road to recovery," said Natalie Jaresko, the board's executive director.

Antonio Fernos, a Puerto Rico economist, said in a phone interview that the agreement is a good deal.

"It's positive because it brings some clarity to bondholders and what the board and government are willing to accept in negotiations," he said.

More challenges remain, with Puerto Rico's government still negotiating with those who hold general obligation bonds.

Last month, the control board asked the judge to invalidate $6 billion worth of that debt, including all general obligation bonds issued in 2012 and 2014, alleging that issuance violated debt limits established by the island's constitution. Taylor-Swain has held hearings on the issue, but has not ruled yet.

In November, Puerto Rico's government reached a debt-restructuring deal with creditors holding more than $4 billion in debt issued by the now-defunct Government Development Bank.

Associated Press

By Danica Coto

February 6, 2019

Hedge Funds Bask in Puerto Rico Bond Deal.

Bondholders offering debt relief in $18 billion renegotiation gain substantial profits

A small group of hedge funds are being rewarded for backing an $18 billion restructuring of Puerto Rico's sales-tax debt that saddled other investors with losses.

Tilden Park Capital Management LP and GoldenTree Asset Management LP are among the credit-market specialists that have reaped hundreds of millions of dollars in paper profits on those revenue bonds and are poised to collect more under settlement terms that provide them with stronger claims to repayment than before, according a Wall Street Journal analysis of court records and trading information.

The deal slashed $6 billion in value from the bonds known as Cofinas, a painful outcome for individual investors who bought them at full price starting in 2007. But as some investors gave up hope of being repaid, hedge funds bought top-ranking Cofina bonds at beaten-down prices, betting they would fare better than others in a restructuring.

Continue reading.

The Wall Street Journal

By Andrew Scurria

Feb. 9, 2019 7:00 a.m. ET

Puerto Rico Oversight Board Tries To Repudiate GO Bonds (Radio)

MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, on the Puerto Rico bonds. Hosted by Abramowicz and Paul Sweeney.

Running time 06:10

Play Episode

February 8, 2019 — 11:17 AM PST

PR Bonds Poised To Rally On Big Fund Involvement (Radio)

Dan Solender, Partner and Head of Municipal Bonds at Lord Abbett, and Michelle Kaske, Puerto Rico reporter for Bloomberg, on Puerto Rico winning approval for its plan to restructure more than $17 billion of sales-tax bonds. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 06:20

Listen to audio.

February 5, 2019 — 9:44 AM PST

S&P Bulletin: Puerto Rico’s COFINA Restructuring Rests on Credit Fundamentals

DALLAS (S&P Global Ratings) Feb. 5, 2019–On Feb. 4, 2019, the federal court overseeing Puerto Rico’s (NR) Title III bankruptcy approved its settlement with COFINA bondholders and its COFINA plan of adjustment, resolving multiple claims on nearly $18 billion in COFINA debt.

Continue Reading

S&P Upgrades Detroit's Credit Rating One Notch Closer to Investment Grade.

- **S&P upgrades Detroit’s credit rating from B+ to BB-**
- **City’s credit rating remains three notches below investment grade**
- **Rating upgrade follows $135 million bond sale solely using Detroit’s credit**

Detroit’s credit rating is one step closer to exiting the Wall Street doldrums of junk bond status that has hampered the city's ability to borrow for years.

S&P Global Ratings on Thursday upgraded Detroit's credit rating on unsecured debt from B+ to BB-, which is still three notches below the highly coveted status of investment grade for municipal bonds.

"The rating improvement reflects our view of the city's stabilizing financial position, whereby we feel it is well situated to absorb increasing pension commitments and scheduled increases in debt service in the coming years, as well as possible revenue setbacks, while still sustaining year-to-year budget balance and very strong reserves," S&P analysts wrote in a note to investors published Thursday.

S&P analysts cited several economic and budgetary factors that continue to restrain Detroit's credit rating, including a looming increase in pension payments set to escalate in 2024 after a 10-year post-bankruptcy pension holiday ends.

"We feel that stabilizing these neighborhoods will be key to long-term stability," S&P analysts wrote. "A major factor still holding back this progress continues to be the struggling state of the Detroit public school system."

At the end of June, the Detroit Police and Fire Retirement System was 77 percent funded, while the larger General Retirement System for city civil servants was 70 percent funded, according to the S&P report.

Detroit has set up a trust fund to cushion the blow of increased pension payments in 2024 when the city has to resume making full payments to the retirement systems after getting a 10-year reprieve in its 2013-2014 bankruptcy.

"In our view, despite the longer-term planning involved, there remains a pension funding gap that constitutes a structural imbalance, resulting in a management score of weak under our local (general obligation) criteria, which caps the rating," S&P analysts wrote.

The improved credit rating was issued for $135 million in unlimited-tax general obligation (UTGO) bonds Detroit sold in December — first bond sale solely using the city's credit in more than 20 years. S&P's new credit rating applies all city bonds that aren't secured by a specific revenue source.

The S&P upgrade — the second in 14 months — follows credit-rating upgrades by Moody's Investors Service in October 2017 and May 2018.

"We believe an improved credit rating is a strong reflection that our strategies to improve the quality of life in Detroit are working," Detroit Mayor Mike Duggan said in a statement.

S&P also issued rating downgrades for two separate Detroit-related bonds issued by the state of Michigan.

Michigan Finance Authority's financial recovery bonds issued in 2014 for the city were downgraded from an A rating to S&P's BB+ rating.

The rating agency also downgraded the credit rating for the Michigan Finance Authority's Local Government Loan Program bonds for the Detroit Public Lighting Authority from A to BB+.

CRAIN'S CHICAGO BUSINESS

CHAD LIVENGOOD

February 07, 2019 02:20 PM

S&P: Why California Special Assessment Ratings Are Bolstered By New Criteria

On April 2, 2018, S&P Global Ratings released its criteria “Special Assessment Debt” detailing implementation of new methodology across its rated portfolio. Ratings nationwide have so far met expectations stated in the report, but ratings in California have undergone slightly more changes than expected, and mostly positive.

Continue Reading

Feb. 5, 2019

San Francisco Selling Bonds for Broken $2.2 Billion Terminal.

- **Booming real estate taxes backing debt trump project concerns**
- **California bonds are sought by those seeking tax shelter**

San Francisco is such a seller’s market that the city is marketing municipal bonds for a new $2.2 billion transit terminal that’s been shut down for months while crews make emergency repairs to cracked support beams.

The city’s offering of $184 million of taxable municipal bonds Wednesday will finance work at the Salesforce Transit Center, where buses from throughout the Bay Area are supposed to drop off and pick up tens of thousands of daily commuters. The terminal was closed in September, a month after it opened, after crews found cracks in two structural steel beams. There’s still no re-opening date scheduled and the cause of the fissures remains unknown.

The bonds are backed by special taxes levied on the buildings in the district around the regional bus and train hub, formerly known as Transbay. The assessed value of the properties for this fiscal year is more than $3 billion, deal documents show.

Even with the terminal closed, tax collections continue and development is underway on buildings around the facility that would fall under the levy that supports the bond payments. Fitch Ratings ranks the new securities AA+, second highest. The train and bus hub itself doesn’t fall under the levy.

Wealthy California residents seeking tax shelters have helped drive down yields on bonds issued in the state. 10-year California general obligations are yielding just 10 basis points over AAA securities.

San Francisco — where the assessed value of property has risen by 57 percent in six years — is seeing “exceptional” demand for its debt, said Tom Lockard, head of investment banking at 280 CapMarkets. He expects investors will snap up the new securities.

From his office window in the City by the Bay, Lockard says he can see busy construction cranes raising buildings all around the terminal. “We can complain about the affordability, but it’s a pretty special place to be here right now in terms of development and progress and Transbay is part of it,” he said.

Bloomberg Business

By Romy Varghese

February 5, 2019

City, Meet County: St. Louis Weighs Historic Merger

A measure to consolidate St. Louis City and County could go before Missouri voters as soon as 2020. But St. Louisans are mixed on what that means.

On Monday, the St. Louis think tank Better Together unveiled a formal proposal to combine the City of St. Louis and St. Louis County in a new type of local government for Missouri: a metropolitan city. Governed by an elected "Metro Mayor" and a 33-member council, the new Metro City of St. Louis would have sweeping powers to enact new laws, tax residents, and oversee law enforcement, justice, planning, zoning, and economic development. This proposal, which would be decided by voters across Missouri, would essentially do away with the present government of the City of St. Louis, including the city's 29-member Board of Aldermen and the office of Mayor Lyda Krewson.

Such a consolidation would overnight transform St. Louis into the 10th largest city in the U.S., with 1.3 million people—larger than San Jose and right behind Dallas.

The idea is rekindling a longstanding debate in several cities that are pondering the virtues and potential pitfalls of joining up with their surrounding counties. There have been about 40 city-county mergers in the U.S.; in recent decades, major examples include Nashville (1962), Indianapolis (1970), and Louisville (2003). They're rare because they're difficult to pull off: Voters may be skeptical of the money-saving arguments for consolidation and susceptible to fears over changing borders between segregated communities. Louisville only got their union done on the fourth try.

Continue reading.

CITY LAB

JACK GRONE JAN 30, 2019

Fitch Rtgs: Oakland Teachers Strike Vote Will Not Trigger Downgrade; Highlights Pressures.

Fitch Ratings-San Francisco-07 February 2019: Fitch Ratings does not expect to take rating action on the Oakland Unified School District's 'BBB+' Issuer Default Rating (IDR) based solely on the Oakland Education Association's (OEA) vote to authorize a strike as early as Feb. 15. The IDR, which already incorporates slow revenue growth and pressured budgets, assumes the district will maintain solid expenditure flexibility and adequate financial resilience throughout economic cycles, including at least a 2% reserve for economic uncertainties as required by the state.

The strike vote comes after months of negotiations, mediation and fact finding have failed to settle new agreements for contracts that expired June 30, 2017 and as the district is attempting to reduce ongoing expenditures by about $30 million in fiscal 2020 (equal to about 7% of estimated fiscal 2020 expenditures). Fitch will incorporate the impact of any eventual agreement and other implications of the labor impasse on the district's ability to balance its fiscal 2020 and 2021 budgets and, more broadly, on its expenditure flexibility and expectations for operating performance over time.

OUSD's planned expenditure reductions would help accommodate cost increases associated with the final agreement. The district had offered a 5% pay increases over three years which OEA rejected. OEA is seeking a 12% pay increase over three years. The district estimates each 1% salary increase costs about $1.9 million per year for teachers and $3.5 million per year for all employees.

Based on unaudited information, the district ended fiscal 2018 with a $17.4 million unreserved fund balance, equal to 3.3% of spending, an improvement from the $3 million, or 0.6% at the end of fiscal 2017.

Operating pressures do not affect the 'AAA' rating and Stable Outlook that Fitch maintains on the district's unlimited tax general obligation (GO) bonds, which are based on a dedicated tax analysis, without regard to the district's financial operations. The distinction between the 'AAA' ratings on the GO bonds and the 'BBB+' IDR reflects Fitch's assessment that the pledged special revenues for repayment of the GO bonds meet the definition of "pledged special revenues" under the U.S. Bankruptcy Code, and therefore bondholders are legally insulated from any operating risk of the district.

For more information on Fitch's analysis of the OUSD, see "Fitch Affirms Oakland USD, CA's GOs at 'AAA' and IDR at 'BBB+'; Stable Outlook," dated April 18, 2018.

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Fitch Ratings: Alaska Proposals to Limit Budget Flexibility Could Pressure

Rating.

Fitch Ratings-New York-05 February 2019: Potential amendments to Alaska's constitution proposed by the governor last week would constrain the state's ability to proactively manage its financial operations and could result in negative pressure on the state's Long-Term 'AA' Issuer Default Rating (IDR)/Stable Outlook, according to Fitch Ratings.

The proposed amendments would require voter approval for new or increased taxes; enshrine the Permanent Fund (PF) dividend (PFD) formula, which is currently controlled by state statute, in the state constitution; place a more restrictive cap on annual growth in state expenditures; and prioritize the deposit of any fiscal year's unappropriated state general fund surplus to the PF ahead of the budget reserve fund, reducing funds available to cure any future budget shortfalls.

Fitch believes the enactment of these amendments, which require approval by two-thirds of each legislative chamber and a state-wide vote, could weaken assessments for key rating drivers related to budget control (i.e., independent legal ability to raise revenues, expenditure flexibility, financial resilience, and budget management), and therefore, exert pressure on the 'AA' IDR for the state. Removing legislative discretion over the PFD formula alone would require a $1.9 billion dividend payment to residents in fiscal 2020, well ahead of the $1.2 billion payment proposed by the prior governor in his $6.9 billion executive general fund budget. Barring other offsetting action, this would result in a more significant draw on the approximate $16 billion PF Earnings Reserve (PFER) than currently expected. The maintenance of reserves is a significant rating consideration for Alaska given the volatility inherent in the economic and resource base (see "Fitch: Depletion of Alaska's PF Earnings Reserve a Possibility" dated July 2, 2018).

Separate legislation submitted on behalf of the governor seeks to appropriate additional funds from the PFER over the next several years to retroactively restore residents' full dividend payments pursuant to the dividend formula; this amount has been reduced in each of the last three fiscal years as part of the state's budget balancing measures. Passage would result in larger PFD payments from the PFER for eligible residents in fiscal years 2020 through 2022. The state estimates restoration payments would total a maximum of $2.3 billion based on proposed eligibility guidelines.

Under the PF Protection Act of 2018, the state established annual draws on the PFER as a means for addressing ongoing projected budget gaps. Fitch's analysis at that time determined that eventual depletion of the PFER was likely in the long term, and noted that prudently structured draws would be necessary to sustain the assets. Enactment of the proposed measures would be expected to escalate depletion of the PFER, barring other moves to reduce the anticipated use of PFER funds to support general operations.

Governor Dunleavy's fiscal 2020 budget proposal is expected to be presented to the legislature on February 13 for their consideration. The governor has publicly committed his administration to delivering a balanced budget without the use of budget reserve funds. In the context of crude oil prices that are forecast at $64/barrel, as compared to much higher historical averages, there is the potential for significant spending cuts. Fitch will evaluate the details of the budget once it is available with an eye toward the critical drivers that have sustained the state's 'AA' IDR: substantial independent management power over revenue raising and expenditure decisions and maintenance of sizable reserves to offset volatility in key revenue sources.

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Fitch Ratings: TX Tax Proposals Could Limit Local Government Revenue Flexibility.

Fitch Ratings-Austin-07 February 2019: Bills recently filed in both chambers of the Texas legislature (HB 2 and SB 2) propose to significantly lower the rollback property tax rate for local Texas taxing entities with a certain amount of annual tax revenue and require ratification elections if rollback rates are exceeded. According to Fitch Ratings, this legislation if enacted could negatively impact Fitch's assessment of certain local governments' ability to independently raise revenues for operations–a component of one of Fitch's four key rating drivers in its U.S. public finance tax supported rating criteria.

The rollback rate in Texas currently is a calculated rate that produces an increase in operating tax levy of 8% from the prior year's levy. If local taxing jurisdictions exceed the rollback rate they are subject to a petition and, if the petition garners enough signatures, an election to reduce the rate back to the rollback rate. HB 2 and SB 2, which are backed by the governor, lieutenant governor and speaker of the house, would both reduce the rollback rate from 8% to 2.5% for local taxing units with combined annual property and sales tax revenue of at least $15 million. Taxing units below the $15 million threshold would retain the current 8% rollback rate. School districts, which have separate operating tax rate constraints, are excluded from the proposed changes. The bills would also require a ratification election–replacing the current petition process–if any local taxing unit exceeds its rollback rate (either 2.5% or 8%). Local rollback petitions and elections historically have been relatively rare.

In analyzing a local government's revenue framework, Fitch considers the entity's ability to independently increase operating revenues (without voter or other jurisdiction approval). For Texas cities, counties, community college and special districts, Fitch views the current rollback tax structure as only a potential threat to revenue-raising ability, noting that a restriction on tax revenue increases would require both a successful petition effort and subsequent election. Fitch considers the limit on operating revenues to be the more restrictive of the constitutional and statutory tax limits (e.g. $2.50 for cities, $0.80 for counties, $1.00 for community college districts), or the voted or charter caps on local government tax rates and/or revenue growth. Nearly all of the Texas local governments rated by Fitch are well below their tax rate or revenue limits. As a result, the assessments for independent revenue-raising ability for Texas cities, counties, community college and special districts are with few exceptions at the 'aaa' level.

The magnitude of the reduction to independent revenue-raising ability for targeted Texas local governments will depend on the requirements of any legislation ultimately signed into law. Previous efforts to reduce the rollback rate have failed, due in no small part to concerted opposition from local governments around the state; lobbying efforts to defeat the current proposal are already underway. Legislators also may negotiate a reduction in the rate to a level between the current 8% and 2.5%; other bills have been introduced that would reduce the rollback rate to 4%.

Both the current and proposed rollback rate calculations consider an entity's tax base growth, which can reduce the revenue impact. Most local governments also retain the ability to increase non-tax operating revenues (e.g. fines, service charges and fees), which could offset the impact of a lower rollback rate as it relates to revenue-raising ability. In addition, Fitch considers the amount that can be raised relative to expected revenue volatility in a typical downturn; as a result, application of a uniform rollback rate limitation would not have the same effect on all governments. Finally, the assessment of independent revenue-raising ability is only one component of Fitch's analytical framework. The strength or weakness of other considerations (revenue growth prospects, expenditure flexibility, long-term liability burden, and operating performance) will determine how much a shift in the revenue-raising ability assessment will affect an entity's overall rating.

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[Fitch Ratings: TX K-12 Funding Proposals Would Boost Rev Expectations.]

Fitch Ratings-Austin-05 February 2019: Public school funding proposals from both the Texas House of Representatives and Senate for the 2020-21 biennium include sizable increases, which if realized would boost near-term revenue growth expectations for Texas school districts, according to Fitch Ratings.

Fitch's U.S. public finance tax-supported rating criteria consider the prospects for future revenue growth in assessing one of its four key rating drivers. Of the nearly 100 Texas districts that Fitch rates, 80% currently have either an 'aaa' or 'aa' revenue growth prospect assessment. The primary considerations for school district revenue growth are enrolment and state funding trends, and to a lesser extent local economic/tax base growth. The limits on Texas school districts' ability to increase local operating tax revenue (unless voter approved) typically result in a weak assessment of independent revenue-raising ability. However, the state's responsibility for and control over education funding overall reduces the emphasis on the lack of local revenue control when assessing a district's revenue framework.

The House proposal would boost state funding for K-12 education by more than $7 billion and contribute to a nearly 17% jump from the last biennium to more than $70 billion in total funding (state, local and federal). The proposal specifies part of the funding be used for property tax relief, salary increases and other specific programs. The proposed $6 billion Senate increase includes $3.7 billion for a $5,000 teacher pay raise and another $2.3 billion for property tax relief, if reforms to the current equalization (recapture) system are enacted.

Several factors likely contributed to the increased K-12 funding proposals introduced as the 2019 session gets underway. First, the state's continued strong economic growth produced an 8% increase in estimated general purpose revenues for the upcoming biennium (total revenue estimate of $119 billion). Also, legislators seem to be responding to ongoing criticism about local property tax burdens on homeowners and businesses and increasing recapture burdens on property wealthy districts. Finally, a 2016 Texas Supreme Court ruling found the current funding system constitutional but flawed and advocated for major reforms. The state's K-12 finance system has been the subject of periodic lawsuits over the past 50 years, mostly aimed at questions of equity and adequacy.

Fitch will monitor the fate of these funding proposals as the legislative session progresses through the spring. The session is scheduled to end May 27th.

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[Investors Put a Price on Michigan State's Sex-Abuse Settlement.]

About $323 million of taxable bonds are sold at a not-too-punitive rate.

Michigan State University on Thursday sold about $323 million of taxable bonds to fund a settlement with the more than 330 women and girls who were victims of serial sex abuser and campus doctor Larry Nassar. It was never truly a matter of whether the deal would get done, but at what cost to the school.

Now there's an answer: 4.5 percent over almost 30 years.

That was the top yield on the $304 million of debt that matures in 2048. It's about 150 basis points above the going rate on 30-year U.S. Treasuries. For context, the spread is 134 basis points on a Bloomberg Barclays index of taxable municipal bonds, which averages about 22 years to maturity and counts Illinois as its largest component. The state, of course, is rated just one step above junk by Moody's Investors Service and S&P Global Ratings, while Michigan State has the third-best investment grade rating. In another comparison, top-rated Texas A&M University issued 30-year taxable securities last month at a spread 25 basis points less than Michigan State.

I wrote in June that "it's an open question whether investors will show up for this offering as they would any other." It's a good thing that the proceeds will compensate Nassar's victims, but it's easy to see why investors might pass on lending to an institution where at least 14 representatives reportedly received reports of Nassar's crimes over the two decades before his arrest. Incidentally, that question was never put to the test until now, as Bloomberg News's Danielle Moran reported.

> Even though the school had always intended a public sale of municipal bonds, it was forced to seek private lenders because terms of the settlement required payment to the victims within 10 days of court approval.
>
> "It is not logistically possible to issue public debt and close in that time period," Mark Haas, vice president for finance and treasurer at Michigan State said in an emailed statement.
> …
>
> RBC Capital Markets was the original lender in December. It in turn sold the loan to its affiliate Royal Bank of Canada, according to a filing.

The results of the sale show that there's almost always a clearing price in the market, and often when things are operating smoothly, it's lower than expected. Suppose the school could have priced the 30-year debt at a yield 15 basis points lower if the proceeds weren't tied up in the Nassar scandal, which Moody's says raises "potentially material financial and reputational risks." Roughly, that comes out to $456,000 a year in higher interest costs. For a 50,000-student university with a $2.5 billion in operating revenue, that's easily manageable.

For bond investors, it usually takes a direct threat to getting paid back to really put the brakes on any sort of deal. In one high-profile example in 2015, Louisiana State University took the rare step of scrapping a $114.5 million offering. Buyers were spooked by talk that because of state budget cuts, it was exploring the option of financial exigency, declared when schools face insolvency.

Michigan State will try to come to terms with Nassar's crimes by paying what appears to be a slight premium to fund its $500 million settlement. More important, as I said more than seven months ago when the sale was first in the works, I hope this public offering is one of the last steps for the victims to get some closure and move forward.

Bloomberg Opinion

By Brian Chappatta

February 7, 2019, 11:51 AM PST

How Does PG&E Impact California's Municipal Bond Outlook?

Nisha Patel, muni portfolio manager at Eaton Vance, examines California's municipal bond market. She speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

January 30th, 2019, 9:31 AM MST

PG&E Bankruptcy May Have Wider Ramifications for California.

The municipal bond market has a small amount of direct exposure to the bankruptcy of PG&E (PCG), California's largest utility, though the Chapter 11 filing creates uncertainty for the state and localities where the utility operates.

The company, which provides natural gas and electric service to 16 million people in northern and central California, emphasized in a customer alert that it will not be "going out of business" as it embarked on plans to restructure an estimated $51.7 billion in debts balanced by assets of $71.4 billion.

PG&E Corp. (PCG) and its primary operating subsidiary, Pacific Gas and Electric Co. filed for Chapter 11 Tuesday in the U.S. Bankruptcy Court for the Northern District of California.

All three ratings agencies dropped the utility's ratings to junk after it reported a few weeks ago that it was facing up to $30 billion in liabilities from California wildfires.

The California Public Utilities Commission, the utility's regulator, reported in December it was exploring such options as splitting PG&E's (PCG) gas and electric operations or even requiring that regional companies be created.

San Francisco Mayor London Breed, in a letter to the director of San Francisco's Public Utilities Commission, reportedly requested an analysis of the city's options in the face of PG&E's (PCG) likely bankruptcy, "including the possibility of acquiring and building electrical infrastructure assets."

A California PUC spokeswoman said she did not know if the commission would have the power to move ahead on those plans now that the utility is in bankruptcy, but said the commission would work with the court.

The company signaled earlier this month that it planned to file for bankruptcy in compliance with a recently enacted state law that requires it to provide a 15-day notice before taking that step.

Municipal bonds comprise less than $1 billion of PG&E's outstanding debt. "And $762 million of the

$920 million in municipal debt was backed by bank letters of credit, so actual exposure to PG&E (PCG) in the municipal market is quite small," Nuveen analysts wrote in a Jan. 22 report.

The municipal bonds are unsecured general obligations of PG&E (PCG), according to Nuveen.

"The corporate bonds generally have a covenant by which if a lien is granted to other creditors it must be granted to the corporate bonds," Nuveen analysts wrote. "The municipal bonds are exempt from this provision and could be subordinated to the other debt."

The municipal debt was issued through two state conduit issuers, the California Pollution Control Financing Authority and the California Infrastructure & Economic Development Bank.

The conduit issuers provide access to the tax-exempt bond market for private companies and nonprofits and have no responsibility to pay the debt back.

Put simply, the conduit issues the bonds, places the proceeds with the trustee, who then re-lends the money to the borrower, said Tim Schaefer, California's deputy treasurer for public finance. The CPCFA is staffed out of the treasurer's office.

The borrower, in this case PG&E (PCG), has the responsibility to provide disclosure prior to the bond sale and after on the risks for bondholders, Schaefer said.

The risk to bondholders is minimal, because the banks will buy the variable rate demand obligations back from the current bondholders, said Matt Fabian, a partner with Municipal Market Analytics.

A search on the Municipal Securities Rulemaking Board's EMMA site of the CUSIPs indicated the banks had not executed a mandatory tender of the debt as of Tuesday afternoon.

In an earlier interview with The Bond Buyer, Joan Hempel of Moody's Investors Service said that the banks have the right to terminate the letter of credit early and call for a mandatory tender. The banks can make the payment and pay the bondholders off early and then PG&E (PCG) would be obligated to pay the bank back directly.

The bank letters of credit means the bank has an irrevocable and unconditional obligation to make the payments directly to the bondholders, Hempel said. The bank then has a reimbursement agreement under which PG&E (PCG) agrees to pay the bank. So the bondholders look to the bank as the first source of payment of the bonds, she said.

There are five banks with exposure instead of just one with a concentrated position, which helps to spread out the risk, Fabian said. As of last Friday, he said, the liquidity banks were MUFG Union Bank with $149 million, Sumitomo Mitsui Banking Corp. with $165 million, TD Bank with $100 million, Mizuho Bank with $200 million and Canadian Imperial Bank with $149 million.

In conjunction with the bankruptcy filings, PG&E (PCG) also filed a motion seeking interim and final approval of the bankruptcy court to enter into an agreement for $5.5 billion in debtor-in-possession financing with J.P. Morgan, Bank of America (BAC), Barclays (BCS), Citi, BNP Paribas (BNPQF), Credit Suisse (CS), Goldman Sachs (GS), MUFG Union Bank and Wells Fargo (WFC) acting as joint lead arrangers.

The DIP financing, when approved, will provide PG&E (PCG) with capital needed to operate throughout the bankruptcy, according to the company.

The PUC board granted exemptions for the utility to obtain the DIP financing at a heated meeting

Monday at which protestors shouted “no bailout for Wall Street” while commissioners discussed the matter. The extensions do not extend to the transfer of ownership of any utility asset that is pledged as part of the DIP finance, however.

PUC President Michael Picker urged his fellow commissioners to approve the exemptions, saying that if PG&E (PCG) were not able to secure the financing and continue to operate it could represent a substantial public safety and health risk because it could compromise hospitals and public facilities.

California Gov. Gavin Newsom said his focus through the bankruptcy remains “protecting the best interests of the people of California.”

“My administration will continue working to ensure that Californians have access to safe, reliable and affordable service, that victims and employees are treated fairly, and that California continues to make forward progress on our climate change goals,” Newsom said.

By Keeley Webster

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