U.S. Conference of Mayors & NYU Launch the Mayors Leadership Institute on Smart Cities.

Washington, DC — In the face of rapidly changing technologies that could potentially accelerate progress for American cities, the United States Conference of Mayors (USCM) in collaboration with the New York University's Robert F. Wagner Graduate School of Public Service, has launched the ***Mayors Leadership Institute on Smart Cities*** (SCI). The goal of the Institute is to provide participating mayors with a clear path forward for a major initiative, a framework for approaching smart city opportunities, and a set of guiding principles to improve their relationships with vendors and future tech partners. The Institute will convene twice a year.

Currently, no fully developed smart city exists anywhere in the country and there are no clear standards or financing strategies for their formation. In an effort to help mayors make sense of the vast array of new technology tools that could address potential issues such as affordable housing, crime, public transit, and citizen engagement, the SCI will provide practical skills, resources and best practices in a peer-to-peer setting. The Institute will flip the current industry-led dynamic, positioning municipal leaders to define priorities and build a model that fast-tracks growth and efficiency for cities across the country.

"The drive to make cities 'smarter' is all about harnessing data and digital technology to meet the challenge of doing more with less. Technology alone can't solve every urban problem, but it's a powerful and cost-effective tool for helping cities accelerate progress. As natural incubators of innovation, cities have an opportunity to step up and lead at this critical time. Ultimately, the Institute is about empowering mayors to be better leaders," says USCM President Columbia (SC) Mayor Steve Benjamin.

"NYU Wagner is proud to partner with the US Conference of Mayors on this Institute," says Sherry Glied, the school's dean. "NYU and universities as whole play an important role in helping cities address today's critical public service challenges. As a recognized leader in the urban space, we are excited to collaborate with mayors here in New York City—one of the world's most vibrant urban epicenters—on their efforts to create 'smarter' cities."

The inaugural meeting of the Institute will take place on December 5 – 7, 2018. Ten mayors from across the country will convene in New York City for three days of closed-door working sessions. Featured experts will include renowned scholars, industry professionals, data officers and public officials widely recognized as leaders in the field. Mayors will construct plans tailored to their specific priorities that can then be practically implemented.

The Mayors Leadership Institute on Smart Cities is supported by Verizon, The Knight Foundation and Parsons.

Wells Fargo's Stratford Shields Is Out as Public Finance Head.

Wells Fargo & Co.'s head of public finance, Stratford Shields, is no longer leading the department after about a year on the job, according to a person familiar with the matter.

It's the latest in a series of personnel changes within the public finance business. Earlier this year, Shields hired bankers from Morgan Stanley while others left for competitors or were dismissed. AnnMarie McDonald, a spokeswoman for Wells Fargo, declined to comment on his status as an employee.

Shields, who was previously a managing director at RBC Capital Markets, joined Wells Fargo in November 2017 as the company's public finance business was dealing with fallout from the bank's fake accounts scandal. Some municipalities and states halted work with Wells Fargo, putting pressure on the department as debt sales dropped and underwriting fees stay stagnant.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 4, 2018, 4:48 PM MST Updated on December 5, 2018, 6:18 AM MST

This Small New England City Was on the Verge of Bankruptcy. Now It's a Turnaround Success Story.

Springfield, Mass., is in the best shape it's been in a generation.

Successful cities nearly all have something in common: leadership that can figure out where the community needs to go and can execute a plan to take it there. Fifteen years ago, it seemed inconceivable that Springfield, Mass., could be described in such terms. But after almost collapsing into bankruptcy, Massachusetts' third-largest city is in the best shape it's seen for more than a generation.

Heading into the 21st century, financial mismanagement wasn't just a problem in Springfield, but a perennial habit. The city kept its property tax records on filing cards and budgeted as if it could collect 100 percent of the revenues that were owed, even though it continually fell millions of dollars short. As a result, Springfield ran deficits for 18 unbroken years. By the time a state control board took over in 2004, the cumulative deficit was, in fact, twice as big as city officials themselves realized — $41 million, not the $20 million estimated.

Springfield's finances were too big a mess even to qualify it for junk bond status. The credit rating agencies couldn't get enough information out of the city to be able to rate it, so they gave up. "A deficit that was twice as high as they thought — what does that tell us about the condition of the city at the time?" asks Stephen Lisauskas, who served as executive director of the state control board.

City officials knew very little about what was happening under their own roof. They were unsure how many employees they had or the extent of their health-care costs. Timesheets were done on paper, using an honor system that was barely honored.

During its five years in charge of Springfield, the control board restructured city departments, laid off employees and ran a rigorous performance measurement program, using data to keep track of what was going on. Mayor Domenic Sarno, who was first elected in 2007, has helped put in place real-time accounting systems that allow agencies to respond promptly when changes are called for. "If you manage your people costs, you're freeing up money for all the other investments needed in the city," says T.J. Plante, the city's finance director.

Springfield now has real-time crime analysis that takes advantage of cameras all over the city, including newly negotiated body cameras worn by the police. The schools have improved: High school graduation rates are up 56 percent over the past five years, and the dropout rate has been cut in half. After a tornado ripped through town in 2011, city officials used federal funds strategically, melding their own investments and infrastructure planning with economic development projects. Previously, public and private investment had rarely been knitted into coherent long-range plans. A big downtown casino and a rail car manufacturing plant are now starting to have spinoff effects, with a total of $3 billion worth of public and private development projects at various stages of construction and planning.

Springfield is not a renewed paradise. Nearly 1 in 4 residents lives in poverty, and more than half of schoolchildren qualify for free or reduced meals. It has not been able to overcome the larger economic forces that have kept Boston booming while Western Massachusetts keeps slipping behind. City pension plans are still sorely underfunded. But Springfield's credit rating is now the highest it's ever been. Housing prices have been perking up after decades in the doldrums, showing that people are willing to invest in a city that has finally figured out the proper ways to invest in itself.

GOVERNING.COM

BY ALAN GREENBLATT | DECEMBER 2018

CDFA Supports Rep. Stivers, New Co-Chair of Muni Caucus.

Read the Press Release.

Municipal Bonds for America | Dec. 4

New York's Agreement with Amazon.

We are continuing our series on the details of the Amazon HQ2 incentive agreements with Virginia, New York, and Tennessee. This article examines the terms of New York's memorandum of understanding pertaining to $1.7 billion in incentives from the Excelsior Jobs Program (tax credits) and Empire State Development (capital grant).

What is incentivized

- The Excelsior Jobs Program offers up to $1.2 billion in refundable tax credits over 10 years. The

credit is based on actual wages of net new jobs and qualifying capital investments per year. The maximum credits allowable per year are specified, along with job and investment commitments. To obtain the full amount, Amazon must employ 25,000 net new full-time employees and invest $2.3 billion by 2028.
Amazon would also be eligible by-right for the NYS Investment Tax and Employment Incentive. However, it may not take this incentive if it takes the Excelsior Jobs Program credit. Amazon can choose which incentive it prefers.

- The Empire State Development grant offers up to $505 million over 15 years to reimburse Amazon for capital costs associated with office buildout, site preparation, and infrastructure improvements. To obtain the full amount, Amazon would need to employ 40,000 by 2034 and jobs must be maintained through 2037.
- Full-time, permanent employees include employees on the payroll who work at the location at least 35 hours per week for at least 4 consecutive weeks and receive benefits. The definition also includes 2 part-time, permanent, private sector employees who work at the location for a combined minimum of 35 hours per week.
- It also appears that full-time contract employees who are not on the payroll but work exclusively for Amazon at the location for last least 35 hours per week in a year-round position will qualify for the incentive.
- The agreement specifies that qualifying positions can't be transferred from another location within the state.

Process

- To claim the Excelsior Jobs Program tax credit, Amazon must submit evidence in an annual performance report that it satisfies job, investment and other eligibility requirements. If the evidence is found sufficient, Amazon will receive a Certificate of Tax Credit.
- Funds for the Empire State Development grant are disbursed annually in arrears each year for the 15 year term as specified investment milestones are achieved. Amazon must make the full investment for each project year and achieve 85% of the specified cumulative net new jobs. Funds may be withheld until disbursement criteria are met.
- If cumulative job numbers fall below the specified level from either of two preceding years, the state can recapture disbursed funds.
- However, if Amazon meets the jobs criteria for years 5, 10 and 15, the state agrees to make the full grant disbursement for those years and any disbursements the may have been previously withheld or recaptured.
  Amazon agrees to pay a 1% ($5 million) commitment fee to Empire State Development once the the Grant Disbursement Agreement is executed.
- The company also agrees to a good faith effort to achieve Minority- and Women-Owned Business Enterprise participation of 30% of the grant amount.

Reporting and Transparency

- Amazon agrees to allow the Department of Taxation and Finance to share tax information with Empire State Development.
- The company also authorizes the Commissioner of Labor to disclose to Empire State Development all unemployment insurance reports and contributions for the purposes of compliance monitoring and performance review.
- The MOU does not address public disclosure or public records.

Smart Incentives

by Ellen D. Harpel | Dec 2, 2018 | Incentive programs

Fitch Ratings: 2019 Fiscal Decisions Key for Illinois

Fitch Ratings-New York-03 December 2018: Illinois faces important fiscal policy choices in its upcoming legislative session that will go a long way toward determining the direction of its credit rating and Outlook, according to Fitch Ratings in a new report.

Illinois' governor-elect has some rather daunting tasks ahead, among them filling sizable mid-year gaps in the 2019 budget, addressing a significant structural gap in the fiscal 2020 budget and taking steps to set the state's pensions on a more sustainable path. "A proposal to use pension obligation bond proceeds to finance near-term contribution increases as part of a re-amortization of the state's pension liability, even as the state lowers its already inadequate statutory funding target, would be a credit negative," said Director Eric Kim.

Illinois will return to single-party control in January when the Democratic governor-elect takes office. However, this is not a panacea for Illinois nor does it mean the end of the state's credit challenges. "Decisions may be made more quickly but not necessarily more prudently," said Kim. Proof of this took place between 2003 and 2014 when the state's credit quality deteriorated considerably even with two different Democratic governors and sizable Democratic majorities in the General Assembly.

In fact, Illinois is still trying to rectify some of those poor fiscal decisions made particularly over the past decade, many of which revolved around liabilities including an unusually large accounts payable balance and severely underfunded state pensions. Deferring bill payments has been a common budgetary-balancing tactic for the state, resulting in unpaid bills that peaked at nearly $17 billion, or almost half of general funds revenues, by last November. After a debt-supported pay-down last year, the bills backlog is at risk of climbing once again.

Retiree benefit demands loom large with Illinois' combined debt and net pension liabilities ($200 billion) representing nearly 30% of the state's personal income. The state's challenging pension burden is the legacy of a decades-long practice of making inadequate pension contributions, a situation which has yet to be rectified. Illinois is one of the few states where courts have imposed legal constraints around the state's ability to modify OPEB benefits for current employees and retirees.

Illinois' 'BBB' Issuer Default Rating reflects ongoing weak operating performance and irresolute fiscal decision-making while the state's Negative Rating Outlook reflects the likelihood of fiscal pressures accelerating in the near term. Countering those credit pressures are Illinois' revenue framework, expenditure framework and long-term liability burden, all of which are strong enough for a state with an 'A' rating. Illinois also retains wide revenue-raising ability over a deep economic base that includes Chicago, the economic epicenter of the Midwest.

'Illinois: What Happens Next' is available at 'www.fitchratings.com'

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Bond Rally Eases Detroit's Return to Muni Market.

- **Once-bankrupt city sells $135 million of municipal debt**
- **City was able to increase size of offering from $111 million**

Luck was on Detroit’s side when it returned to the municipal bond market.

A Treasury market rally, low supply and strong demand for high-yielding securities greeted the city when it sold $135 million of debt Tuesday, the first sale of bonds backed only by the city’s promise to repay since it filed a record-setting bankrupt five years ago. The conditions allowed Detroit to secure lower interest rates than initially expected, leaving it paying even less than some borrowers that haven’t reneged on their debts.

Bonds were priced with yields ranging from 3.36 percent on a 2020 maturity to 4.95 on those due in 2038 — tighter than what was first offered. The city also was able to increase the size of the deal from $111 million to $135 million, an indication of strong demand.

“It’s a perfect recipe to come to market,” said Kathleen McNamara, senior municipal bond strategist at UBS Wealth Management. “They should be very, very happy.”

Detroit filed for bankruptcy in 2013 to escape from debts it couldn’t afford after the population tumbled, tax collections slid and the automobile-industry’s decline left the economy reeling. The bankruptcy, like Puerto Rico’s which followed, unsettled the municipal bond market and raised the specter that governments would be punished by the market when they returned to borrow again.

But the penalty wasn’t that large. Last week, Chicago’s junk-rated school system sold 5-year bonds for a yield of 4.16 percent, or 1.95 percentage points more than what top-rated borrowers pay. Detroit’s 5-year bonds sold Tuesday for a yield of 3.91 percent, about 1.81 percentage points above the benchmark.

“From our perspective the bankruptcy penalty is pretty small to none,” said Dora Lee vice president at Belle Haven Investments, “I think that people just want yield right now and they’re hoping that they will get that with Detroit.”

“Investors obviously have short memory when they see a 5 percent yield,” McNamara said.

Bloomberg Markets

By Danielle Moran

December 4, 2018, 1:09 PM MST

Detroit Sees Big Demand in Muni Market Return.

For the first time since its bankruptcy, the Motor City issues stand-alone general obligation bond

Investors embraced Detroit's first stand-alone bond sale since its historic bankruptcy, a sign many remain willing to lend to the city despite the lingering pain of losses from its restructuring.

The lure of higher yields from the below-investment grade debt outstripped concerns about the city's troubled financial history, analysts said. Investors suffered losses on Detroit debt when it became the biggest U.S. city to ever file for bankruptcy in 2013.

The sale Tuesday marked the first time since bankruptcy more than five years ago that the city issued stand-alone general obligation bonds—those backed by its own full faith and credit. Those bonds hit investors with losses during Detroit's restructuring, raising questions about the risks of what many had considered the safest form of state and local debt.

Continue reading.

The Wall Street Journal

By Gunjan Banerji

Updated Dec. 4, 2018 5:40 p.m. ET

Post-Bankruptcy Detroit Returns to Yield-Hungry Muni Bond Market.

CHICAGO — Detroit on Tuesday sold its first standalone bonds since exiting bankruptcy four years ago to U.S. municipal market investors, who snapped up the debt albeit at hefty yields.

The unlimited-tax general obligation bond issue sold solely under the city's junk-rated credit was increased to $135 million from nearly $111 million due to strong investor demand and "attractive borrowing costs," according to John Hill, Detroit's chief financial officer.

He attributed the deal's success to a combination of market conditions and the city's message of how far it has come since it ended what was then the biggest-ever U.S. municipal bankruptcy in December 2014.

"This shows we're back in the market now on our own credit. It's quite a milestone," Hill said.

The deal also sends a message to other financially distressed issuers that a bond default or bankruptcy may not lock them out of the $3.8 trillion muni market for that long, according to Nicholos Venditti, a portfolio manager at Thornburg Investment Management.

"My goodness, this is a pretty quick turnaround from bankruptcy to selling debt in a very short amount of time," he said.

Detroit's bonds were sold amid a muni market price rally that lowered yields on Municipal Market Data's (MMD) benchmark scale as much as 8 basis points, while U.S. Treasury yields also fell and

U.S. stock indexes suffered steep drops.

Yields topped out at 4.95 percent for bonds due in 2038 with a 5 percent coupon. Spreads over MMD's triple-A yield scale ranged from 183 basis points in 2023 to 200 basis points in 2033 and 190 basis points in 2038.

Daniel Berger, MMD's senior market strategist, said investors "were willing to give (Detroit) a fresh start, but at a high-yield price." He said spreads in the city's deal were comparable to those in last week's junk-rated Chicago Board of Education GO bond sale.

Venditti said the bonds' pricing had less to do with Detroit's post-bankruptcy story and more with market dynamics."Yield is still very, very difficult to find and hey here's some yield," he said.

The bonds were rated three to four notches below investment grade at Ba3 by Moody's Investors Service and B-plus by S&P Global Ratings. Detroit tapped voter-approved authority that dates back to 2004 and 2009 for the bonds, which will fund capital projects.

Ahead of the sale, Detroit officials touted improvements in the city's financial management, budget, and services as well as increased economic development. The bankruptcy, which was eclipsed by Puerto Rico's 2017 filing, allowed the city to shed about $7 billion of its $18 billion of debt and obligations.

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

By Reuters

Dec. 4, 2018

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

Detroit Sells $135 Million In Bonds With Its Own Credit.

- City sells $135 million in general obligation bonds
- Its the first bond sale solely using the city's credit in more than 20 years
- Bonds to fund land assemblage for economic development, other projects

The city of Detroit completed a sale Tuesday of $135 million in general obligation bonds, the first time in more than 20 years that Michigan's largest city has tapped the municipal bond market on the back of its own credit — and without the need for expensive layers of insurance for bondholders.

The 4.8 percent interest rate Mayor Mike Duggan's administration was able to secure on the bonds allowed city officials to increase the borrowing from $110 million to $135 million, said John Hill, Detroit's outgoing chief financial officer.

"We got back in the markets for the first time in quite a long time on our credit," Hill told Crain's.

In the years leading up to Detroit's July 2013 bankruptcy filing, the city could only borrow money with the backing of the state of Michigan or with costly insurance layered atop of the debt, which proved complicated to untangle in the bankruptcy.

About 30 institutional investors bought Detroit's new debt, Hill said.

"The (bond) market is really good today. But, as you know, it can change tomorrow," Hill said on a day the Dow Jones Industrial Average plunged 799 points, while the S&P 500 and NASDAQ indexes fell sharply.

The bond sale was completed a week short of the four-year anniversary of Detroit's emergence from a Chapter 9 bankruptcy restructuring that left some past bondholders and insurers with as little as 10 cents on the dollar for past debt deals.

Detroit's new unlimited tax general obligation bonds will be used to finance a series of capital improvement projects at the Detroit Department of Transportation Coolidge bus terminal, neighborhood parks, the Charles H. Wright Museum of African American History and Aretha Franklin Park (formerly Chene Park), according to a memo sent Oct. 22 to City Council members.

The Duggan administration also plans to use a portion of the funds for buying out property owners in areas where officials are trying assemble large tracts of land for potential real estate and economic development opportunities, Hill said.

"This has money in it that would allow the city to assemble larger parcels of land," Hill said.

The mayor's office also is budgeting money from the bond proceeds for transportation infrastructure improvements and capital expenses for public safety facilities and vehicles, according to Hill.

In recent years, the city has been restricted to using budget surpluses to pay for capital expenditures.

"These bonds help take pressure off the city's general fund to support its capital needs," Hill said.

The city will have immediate access to the proceeds of the tax-exempt bond, but plans to spread out the capital projects over a period of two years, Hill said.

Moody's Investors Service assigned a Ba3 credit rating to the bonds, which is still deemed noninvestment grade or junk bonds in the eyes of investors.

CRAIN'S CHICAGO BUSINESS

CHAD LIVENGOOD

December 05, 2018 09:39 AM

Hilliard Lyons agrees to join Baird.

LOUISVILLE, Ky. — HL Financial Services, LLC (the parent company of Hilliard Lyons and Hilliard Lyons Trust Company) announced today that it has signed a definitive agreement to allow Hilliard Lyons and Hilliard Lyons Trust Company to join Baird. The agreement has also been approved by Houchens Industries, Inc., the majority shareholder of HL Financial Services, LLC.

Hilliard Lyons, an independent wealth management firm, and Hilliard Lyons Trust Company are headquartered in Louisville, Ky., and Baird is headquartered in Milwaukee, Wi. Baird is an international, employee-owned wealth management, capital markets, private equity and asset management firm with more than $200 billion in client assets. Terms of the deal, which is subject to regulatory approvals, were not disclosed. The transaction is expected to close in the first half of 2019.

Established in 1854, Hilliard Lyons is one of the nation's oldest investment firms and has nearly 1,000 employees, including more than 380 financial advisors, operating in more than 70 offices in 11 states. Along with its sister company Hilliard Lyons Trust Company, the firm offers wealth management, trust, and estate planning services, as well as investment banking, municipal finance, and asset management services. It has over $50 billion in client assets and had more than $280 million in revenue for its fiscal year ended September 30, 2018. Baird, established in 1919, has more than 3,450 associates, including 890 financial advisors, working from 97 locations in 30 states.

"On every level, Baird is a great fit for our clients and for the Hilliard Lyons team," said Jim Allen, chairman and CEO of Hilliard Lyons. "We are especially pleased to return to our roots and rejoin an employee-owned firm. Baird's culture, values and business model align seamlessly with ours, and its reputation as a best place to work is unsurpassed in the industry."

"Joining forces will accelerate the success of both firms and the success of our clients," said Baird Chairman Paul Purcell. "We have a close relationship with Hilliard Lyons that goes back more than two decades, and we couldn't be happier to have Jim Allen and the rest of the Hilliard Lyons team join Baird."

Steve Booth, president and CEO of Baird, stated, "Hilliard has an excellent reputation and similarities to Baird including a strong, client-centric culture and business model, a commitment to being a great place to work and a long history of giving back to the community."

"It has been an honor for Houchens Industries to be the major shareholder of Hilliard for almost 11 years," said Spencer Coates, president, and Jimmie Gipson, chairman of Houchens. They continued by saying, "We are very pleased with the merger of Hilliard and Baird. This union of great firms will allow Hilliard to continue to expand, grow, and bring additional value-added services to both existing and new clients."

Jim Allen also expressed his sincere appreciation and respect for Houchens. "Houchens has been a tremendous partner for more than 10 years. Their support and commitment to our growth and development clearly puts us in a position of strength as we pursue this exciting next chapter with Baird. We will be forever grateful to Jimmie, Spencer, and the entire Houchens team. Of course, our strong relationship and friendship will endure."

Hilliard Lyons top leadership – Chairman & CEO Allen, President Tom Kessinger III, and Alan Newman, executive vice president and director, Private Wealth – will continue in their roles, working closely with Baird's Private Wealth Management (PWM) Leadership to ensure a smooth transition for the firm and its clients. When the merger is completed, likely in the second half of 2019, Allen will serve as a vice chairman of Baird and a member of Baird's executive committee out of Louisville; Kessinger will serve in a PWM Leadership role in Lexington, Ky., while continuing to serve his wealth management clients; and Newman will serve in a PWM Leadership role in Evansville, In. All will remain active in their respective communities as leaders at Baird.

The combined firm will have approximately 1,300 financial advisors serving clients from nearly 170 locations in 34 states. That will include maintaining a significant presence in the Louisville community.

Hilliard Lyons and Baird share a longstanding tradition of giving back to the communities in which their associates live and work. Both firms and their associates support a variety of service, cultural, health, and education-related organizations. In 2017, Baird Foundation provided more than $3.1 million in support to charitable organizations.

Wyatt, Tarrant & Combs served as legal counsel to HL Financial Services, LLC and JP Morgan Securities, LLC, served as exclusive financial advisor and provided a fairness opinion to the Board of HL Financial Services, LLC.

November 27, 2018

Puerto Rico Completes Its First Debt Restructuring Deal.

SAN JUAN, Puerto Rico — The U.S. territory of Puerto Rico said Thursday that it has completed its first debt-restructuring deal since the government announced it was bankrupt more than three years ago, giving creditors overall $550 in new bonds for each $1,000 they had held.

The agreement was finalized with creditors holding more than $4 billion in debt issued by the now-defunct Government Development Bank. The bank once issued loans and oversaw the island's debt transactions but ceased operations in March amid a 12-year recession.

"The closing of the GDB debt restructuring is a historic milestone in Puerto Rico's road to economic recovery," said Gov. Ricardo Rossello. "It is clear evidence that Puerto Rico has the credibility and resolve necessary to resolve its fiscal challenges."

It's not clear, however, how much the agreement will affect some $70 billion in other debt still outstanding. Much of that is being addressed in court rather than in voluntary agreements.

The government said its Debt Recovery Authority will soon issue nearly $2.6 billion in bonds to the creditors.

However, some economists are wary of the agreement, uncertain if the payments can be sustained because of the fragility of Puerto Rico's finances and the ongoing crisis that was caused in part by previous administrations borrowing millions of dollars to cover ballooning deficits.

"A lot of us economists are concerned that these deals are temporary and don't guarantee that Puerto Rico won't fall into another debt crisis," economist Jose Caraballo said by phone.

However, he praised the way the deal gives different treatment to different sorts of bondholders. One group, made up largely of hedge funds, will be paid first but at a lower percentage of their original investments. A second group, which includes local investors, will get paid later but receive a larger percentage.

But Caraballo warned another crisis may hit the island before the second group gets paid, and he said the deal does not end Puerto Rico's financial troubles because the accord isn't based on the government's long-term ability to pay.

"These agreements are not sustainable," he said. "It's not the end of the story. It's a comma in the middle of this crisis."

Another economist, Vicente Feliciano, noted that the deal depends on municipalities continuing to make payments out of the property tax they collect. Property values have been hit by large-scale migration off the island due to economic woes and last year's devastating Hurricane Maria, which caused estimated damage of more than $100 billion.

"There's always a risk that at some point the municipalities may have challenges meeting their obligations," he said in a phone interview.

Overall, Puerto Rico agencies still hold roughly $70 billion in public debt and are trying to restructure a portion of it via court and mutual agreements with creditors. A federal control board appointed by Congress is overseeing the bankruptcy-like process as well as Puerto Rico's finances.

In January, a federal judge is expected to rule on a billion-dollar debt restructuring deal involving bonds backed by a sales tax.

By The Associated Press

Nov. 29, 2018

Westchester County Loses Triple-A Rating From S&P.

The county incurred a deficit in 2017 and is forecast to end this year with an almost $40 million deficit

One of the richest U.S. counties, Westchester, lost its triple-A rating Tuesday.

S&P Global Inc. downgraded the suburban county north of New York City to a double-A plus rating from the highest grade, triple-A.

Analysts at S&P cited Westchester's thin reserves and inability to balance expenses and revenues. The county incurred a deficit in 2017 and is forecast to end this year with an almost $40 million deficit, partly driven by retroactive salary increases to union workers.

"As we have said these past few months, the county is in serious financial stress," said George Latimer, Westchester's county executive, in a statement.

Westchester's costs continue to swell because of such salary costs, the S&P analysts said, though it has turned to its wealthy tax base to help its budget. The county's financial plan for this year and next includes property tax increases of 2%, one of the biggest sources of municipal income, according to S&P.

Westchester is one of the richest counties in the nation based on income per person, according to S&P. Almost a million people reside in Westchester, which benefits from its proximity to New York City, with more than a third of its residents commuting to the city.

Some of the county's prior tactics to help finances may not work in the future, the analysts said. Westchester previously tapped one-time measures, like selling property and privatizing the county's assets, to balance its budget, they said.

The analysts at S&P warned that there is a chance Westchester's rating could be lowered further in the next two years, if county officials aren't able shore up its reserves and finances continue to deteriorate.

Westchester lost its triple-A rating in 2013 from Moody’s , which also has a negative outlook on the county, indicating its credit could be further downgraded.

The Wall Street Journal

By Gunjan Banerji

Nov. 27, 2018 6:53 p.m. ET

Texas Airport Plans $11 Billion Bond Gusher as Growth Surges.

- **Half to fund capital improvements, half for refunding**
- **Much of the debt will be taxable to attract foreign buyers**

For Wall Street bankers and investors prospecting for municipal-bond deals at a conference in Texas, Michael Phemister promised them a gusher.

The vice president for treasury management at Dallas Fort Worth International Airport said he was planning on selling between $10 billion and $11 billion in municipal bonds over the next five to seven years to add more capacity to an airport that serves one of the fastest-growing areas of the nation.

“Our airfield is in pretty good shape, but we’re out of gates again,” Phemister said at a Bond Buyer conference in Dallas.

Dallas Fort Worth International will join a surge of U.S. airports that have issued debt this year. In an arms race to expand and improve terminals, municipal-bond sales issued by airports are up more than 30 percent this year to $13.7 billion, including those in Denver, New York, Los Angeles, San Francisco and Salt Lake City. The increase stands in contrast to the rest of the municipal-bond market, where debt sales dropped this year after interest rates rose and the federal tax-overhaul pulled subsidies from a key type of refinancing.

Half of the Dallas airport bonds will be for airfield and terminal improvements, with the rest going to refund existing debt, Phemister said. The first refinancing issue is tentatively planned for the summer of 2019 to take out $1.3 billion of higher-cost debt. The airport has the option to call about $5.2 billion through 2023. He also detailed that a large portion of the debt was going to be subject to federal income taxes, instead of tax-exempt or alternative minimum tax bonds.

“The difference in yields between AMT and taxable we believe to be marginal and they’re just going to get tighter,” he said.

By issuing the bonds as taxable securities, the airport hopes to draw interest from international buyers, who are looking abroad for high-grade bonds because debt yields across much of Europe and Asia are well below those in the U.S. Foreign investment in municipal debt has been increasing, giving overseas buyers a small but growing segment of the market.

Phemister said he met with over 25 investors during a two-week trip to court foreign buyers in Europe and Asia, making stops in London, Paris, Seoul and Taipei “to talk to them about the U.S. airport credit and how we have never defaulted.” The airport aims to get about 20 percent in international participation in the first-issued taxable deal.

A 10-year capital plan is currently being negotiated with the airlines, including American Airlines, which has a major presence at the Dallas airport, according to 2017 financial statements. Proposed projects include a $2.5 billion terminal and $1.5 billion for airfield improvements.

The airport is also considering a multi-billion dollar sale of short-term debt to help finance its operations.

“$1 billion will get you noticed,” Phemister said of such commercial paper sales. “We hope to bring $1 billion deals once a year over the next four to five years.

Bloomberg Markets

By Danielle Moran

November 30, 2018, 7:48 AM MST

Emanuel Gets His TIF Bill.

Illinois lawmakers hand the mayor a victory and defer immediate action on regulating car-sharing firms, as the end of the fall veto session approaches.

Mayor Rahm Emanuel scored a victory on the development front, and a truce was called in a battle over how to regulate car-sharing firms in separate developments late yesterday in the General Assembly’s fall veto session.

In the first action, the Senate followed the lead of the House and voted to authorize the City Council to extend by 13 years the life of four city tax-increment financing districts, most notably the Goose Island TIF adjacent to the proposed River North development.

Details of exactly how those TIFs will be used and how much money they will provide have not been released. But according to city officials, tens of millions of dollars likely are headed to infrastructure and related needs in the districts.

Meanwhile, an effort to regulate car-sharing firms such as Turo in the same manner as car rental firms such as Enterprise and Hertz stalled when sponsors of a bill that would have done that failed to call it for an override of a veto by Gov. Bruce Rauner.

The issue had sparked a massive lobbying campaign on both sides, with substantial campaign cash beginning to flow. Sponsors claimed they had the votes, but I’m told they agreed to talk peace after House Speaker Mike Madigan sent word that he’d prefer not to proceed with an override now. Beyond that, a couple of key lawmakers who favored an override were not able to attend this week’s session, I’m told.

In a statement, bill sponsors and the American Car Rental Association said they are “encouraged” that both sides have agreed to come to the bargaining table.

“We welcome peer-to-peer car rental platforms to join us to ensure greater consistency, fairness and safety on behalf of the entire industry,” said Greg Scott, government relations representative for the association.

The override previously had cleared the Senate. Details were not available on when a compromise might emerge, but it now won't be until at least next year, since lawmakers are scheduled to adjourn for the year later today.

CRAIN'S CHICAGO BUSINESS

BY GREG HINZ

November 29, 2018 06:00 AM

[Chicago Mayoral Candidate Wants to Settle City Debts by Taxing the Neighbors.]

"… Candidate Bill Daley, son of former Mayor Richard J. Dailey, brother of former Mayor Richard M. Daley, and Emanuel's successor as President Barack Obama's chief of staff (can Chicago's political dynasty get any more incestuous?), is proposing a commuter tax to try to get more money from suburbanites who work in the city of Chicago. … adding to the pension crisis via a new city bureaucracy and then trying to get even more money from a reduced population seems remarkably irresponsible."

Read the full article on: Reason

Scott Shackford | December 3, 2018

How Municipal Bonds Withstood California's Inferno - So Far.

The California fires haven't sparked a sell-off in the secondary markets in a sampling of muni bonds in devastated areas.

"Muni investors are either unconcerned or do not fully understand the extent of the fire damage and its impact upon these bonds," said Daniel Berger, a senior market analyst with TM3/MMD and Refinitiv, the financial and risk business of Thomson Reuters (TRI).

Berger took a look at trading for the Paradise Redevelopment Agency, Santa Monica-Malibu Unified School District and Butte Glenn Community College District.

In the three major fires burning in the state, Paradise has been most affected as roughly 90% of the town has burned, according to fire officials.

The $1.47 million in Paradise RDA debt issued in 2016 has been thinly traded, Berger said.

After the fire, S&P Global Ratings placed the Paradise Unified School District on CreditWatch with negative implications. The school district's only direct debt was certificates of participation that have since been defeased, according to information on the Municipal Securities Rulemaking Board's EMMA website.

On Nov. 6, voters in the Paradise school district passed a $61 million general obligation bond measure. The devastation throughout the community and its tax base will complicate any plans to use the authorization.

The California Teachers Association said the Camp Fire destroyed at least five of the nine schools in Paradise and that many educators lost their homes. Paradise USD had an estimated 3,165 students in fiscal 2017.

Santa Monica-Malibu-Unified School District issued $120 million in general obligation bonds in September, but there does not appear to be an elevated level of concern there based on trading, Berger said.

“We used the MMD Trade Tracker and did not see any blocks of more than $1 million trade since November 1,” Berger said.

Malibu’s four schools were evacuated as the Woosley Fire that started Nov. 8 in Ventura County spread south to Malibu. The California Department of Forestry and Fire Protection reported that three lives were lost and 1,500 buildings were destroyed by the fire that burned 97,000 acres. That fire was 97% contained as of Tuesday morning.

Malibu’s three elementary schools are in “good condition,” with some landscaping damage to Malibu High School, according to news reports.

Malibu had 5,589 households with a medium value of $1.8 million, according to U.S. Census as of July 1, 2017. Santa Monica has 46,463 households and homes with a medium value of $1.08 million.

The joint school district agreed to a plan to split into two in March with a 50-year revenue sharing plan. More than 80% of the students in the joint district resided in Santa Monica. Malibu has 1700 students enrolled in its four schools.

None of the Butte-Glenn Community College District campuses are in the fire zone, but the loss of homes in Butte County, which has a population close to 230,000, could affect assessed value — particularly if homeowners don’t decide to rebuild. The county had 85,000 households as of the July 1, 2017, census.

The community college district is located south of the Camp Fire, the state’s most destructive historically and a fire that has resulted in 79 deaths, destroyed roughly 17,000 homes and businesses and consumed 151,373 acres. That fire was 70% contained as of Tuesday morning, according to CalFire.

Berger also used the MMD Trade Tracker to look at three series of bonds issued by the Butte-Glenn Community College District and said he found that the bonds were trading better than MMD’s Triple A scale.

News of the fires has prompted investors to question issuers on California deals that have priced since fire began to ravage areas of the state, particularly since most syndicates and sales desk are New York-based, but pricing has appeared to be more relative to the individual credits, according to one banker. The California deals that priced last week were in areas that have not been affected by fire.

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 11/21/18 07:03 PM EST

Fitch Warns of Negative Credit Effects on Reinsurance from California Wildfires.

The "downside credit risks" from the California wildfires are the most pronounced for investor-owned utilities, which could face large liabilities if IOU equipment is found to have ignited the fires.

And negative credit implications could emerge for the reinsurance industry and the U.S. public finance sector, given the potential for a state-wide economic slowdown, damaged infrastructure and associated environmental issues, according to a report from Fitch Ratings released on Wednesday.

The utilities sector is the most directly exposed to credit risk from the wildfires, with Pacific Gas and Electric's (PG&E:BBB-/RWN) and Southern California Edison (BBB+/Stable) experiencing downgrades earlier this year due to potential outsized liabilities from wildfires, Fitch says.

"The increased frequency of wildfires and sheer magnitude of potential exposure, coupled with an uncertain path to recovery, meaningfully expands business risk for electric utilities operating in California," the ratings agency said.

Industry data provider CoreLogic this week reported total losses from the wildfires in Northern and Southern California could reach from $15 billion to $19 billion.

A report that PG&E filed with regulators on Tuesday shows that in the days before the Camp Fire, California's deadliest wildfire, erupted near a PG&E Corp. power line during a windstorm, the company kept a close eye on the weather, warned customers it might shut off electricity in the area, and finally decided conditions weren't bad enough to warrant it.

Fitch estimates that PG&E's financial exposure for the 2017 wildfires could be roughly $15 billion, "with large incremental liability possible" if it is found that PG&E equipment was involved in ignition of the 2017 Tubbs and 2018 Camp wildfires. PG&E common stock has lost more than half of its value and spreads have widened significantly.

A new data analysis from BuildFax released on Wednesday shows construction performed on properties in Butte County, where the Camp Fire burned, rose 8.57 percent year to date compared to January through October 2017.

"This suggests carriers may not have accurate assessments of the wildfire's true damage on their books, which could pose challenges in the recovery phase," the BuildFax analysis states.

The Fitch report shows that credit implications for other U.S. corporate sectors, including homebuilding, oil and gas, metals and mining, transportation, healthcare, retail, and agriculture, should be minimal.

"Insurance will partially cover losses with operational disruptions likely temporary and not prolonged enough to negatively affect individual credit profiles," the report states. "Moreover, many issuers including those mentioned above along with lodging and leisure and media and entertainment are either diversified geographically or by type of business properties."

According to Fitch, the recent California wildfires mark a second consecutive year of major wildfire losses for reinsurers as the industry incurred $11.5 billion of insured losses in 2017.

Prior to this year's fires, California wildfires in July 2018 resulted in $845 million of direct-insured losses.

“Insured losses, while certainly significant, are expected to remain within the estimated ranges used by insurance industry when pricing catastrophe risk into premiums,” Fitch stated. “Furthermore, insurance companies with exposure to the California wildfires are generally the larger, more capitalized national carriers that, as a group, have high insurer financial strength ratings.”

Insurance Journal

November 28, 2018

Kroll Bond Rating Agency Affirms Assured Guaranty Corp.’s AA Financial Strength Rating with Stable Outlook.

NEW YORK–(BUSINESS WIRE)–Kroll Bond Rating Agency (KBRA) affirmed its insurance financial strength rating of AA, with a Stable Outlook, for Assured Guaranty Corp. (AGC), a financial guaranty subsidiary of Assured Guaranty Ltd. (together with its subsidiaries, Assured Guaranty)(NYSE:AGO) on November 30, 2018.

In the report, KBRA noted that “AGC’s financial position is strong” and cited the following key strengths to support its rating conclusion:

- AGC demonstrates the “ability to withstand KBRA’s conservative stress case loss assumptions across AGC’s insured portfolio.”
- AGC’s “substantial and continuing runoff in higher risk components of the Company’s portfolio.”
- AGC’s “experienced management which operates with a mature and high-functioning operating platform supported by strong governance and risk management systems.”
- The **Stable Outlook** for AGC reflects “KBRA’s stress case loss analysis which incorporates significant deterioration in the distressed sectors of AGC’s portfolio from current performance, which should contribute to stability if ultimate losses do not approach or exceed these modeled levels.”
- Additionally, although it acknowledged that some recent developments may signal a more positive path forward for Puerto Rico, KBRA’s analysis incorporated high severity loss assumptions applicable to AGC’s Puerto Rico exposure and also determined that Puerto Rico ultimate loss recoveries would have to approach zero to place downward pressure on AGC’s rating.

“Once again, KBRA recognized the strength of AGC’s financial position, affirming AGC’s AA stable rating. KBRA also conducted a detailed analysis of AGC’s corporate governance, credit and risk management processes and consider them reflective of the industry’s best practices,” said Dominic Frederico, President and CEO of Assured Guaranty, adding: “KBRA also noted that our leverage ratios remain at historic lows.”

AGC is part of Assured Guaranty, the leading provider of financial guaranty insurance. Including AGC and its affiliates, the group has $12 billion of claims-paying resources. Assured Guaranty generates approximately $400 million of annual investment income from its high-quality, fixed-income investment portfolio. On average, $2 billion of municipal bonds insured by Assured Guaranty companies trade each week.

AGC affiliates Assured Guaranty Municipal Corp. (AGM) and Municipal Assurance Corp. (MAC) are both rated AA+, Stable Outlook, by KBRA. Additionally, AGC, AGM and MAC are all rated AA with Stable Outlooks by S&P.

Smaller Utilities Most Exposed to California Wildfire Risk: S&P

- **New report identifies which areas at heightened risk**
- **Isolated towns will struggle after fires when people resettle**

After major natural disasters in the state, utilities are typically required to front the costs of repairs and are only reimbursed by the Federal Emergency Management Agency and state government afterward. Utilities in towns that are small or poor, on the edge of flammable wilderness, or far from a major city will have particular trouble in paying for those costs upfront or reestablishing service quickly so they can resume collecting revenue, according to the report by credit analyst Tim Tung.

California has been rocked by deadly and destructive fires that burned across the state in recent weeks. The most severe, the Camp Fire, destroyed thousands of homes and other structures, killed 79 people with about 700 still missing, and burned over 151,000 acres in the northern part of the state.

California's fire season is set to get longer and more severe, the report states, if recent research on California's climate holds true. The report warned that "in the future, the state will experience shorter, more concentrated rain seasons" as well as "longer dry periods during which fires may threaten."

Continue reading.

Bloomberg Markets

By William Green

November 20, 2018, 1:28 PM MST

CalSavers: A Pathway to Secure Retirement for 7.5 Million Californians

Hollywood has created a popular image most Americans have of California, where we all live in a sunny paradise with homes lining the beach or in lush suburbs. With a state brimming with cutting-edge companies, a highly skilled workforce, and the world's fifth-largest economy, there's no argument that, for some of us, this picture can be somewhat accurate. But there's another, darker image of California — of workers, young and old, struggling to make ends meet, with each generation on track to retire poorer than the last. While our state has reached new heights of wealth and prosperity, still, today, 75 percent of low- and middle-income retirees rely solely on Social Security for their livelihood, and nearly half of California workers are projected to retire into economic hardship.

Demographic trends portend an even more dire outcome. The State Department of Finance has found that Californians over 65 are the fastest-growing segment of the population — expected to more than double over the next 40 years. This means even higher rates of poverty and homelessness among older Californians, which will inevitably put an even greater strain on publicly funded health and human services.

At the same time, many younger Californians, including thousands working in the gig economy, lack access to retirement savings plans, like 401(k)'s at their job, and are on track to have little to nothing saved for retirement.

Add to this, crushing housing costs, a shortage of college-educated workers, and depressed conditions in much of Inland California, and it's not hard to envision a bleak scenario for the Golden State.

That is why State Senator Kevin de León and I have created a bold new program to secure a brighter financial future for 7.5 million hard-working Californians — over 40 percent of the state's workforce. Later this month, we will begin to roll out CalSavers, a state-run program that will help workers — from Generation Z to baby boomers — save for their retirement. CalSavers will help facilitate the most ambitious expansion of retirement security since the passage of Social Security more than 80 years ago. CalSavers will first launch a pilot with a small group of employers to fine tune the program before launching statewide in 2019.

CalSavers will give employees access to a completely voluntary, low-cost, portable retirement savings vehicle, with professionally managed investments, overseen by a public and transparent board of directors, for which I have the privilege of serving as chairman. In addition, the program is fully sustained by competitive participant fees, which will be reduced further as the program grows. There is no taxpayer cost; similarly, there are no fees for employers.

Following the pilot, and beginning in mid-2019, the program will open fully for statewide enrollment. Eligible employers of any size will be able to register at any time, but eligible employers with 100 or more employees, who choose not to offer a retirement plan, will have no more than one year from the full program launch date to register. Employers with 50 or more employees will be required to register within no more than two years, and those with five or more employees in no more than three years.

In 2012, California was the first state to enact legislation aimed at remedying the personal financial crisis faced by millions of working people here and across the country. We were the first to enact legislation establishing a board and program, providing a model for other states, including Oregon and Illinois, which have followed our lead and done a great job of leading on implementation.

Securing California's economic future requires a range of bold initiatives that address multiple challenges. That's why I have joined with leaders in government, business, nonprofit, and labor who are stepping up, through legislation and other actions, to address critical issues such as housing, homelessness, and support for seniors and veterans.

We cannot measure success by the wealth we create for our most privileged citizens. Indeed, we are only as successful as our ability to significantly improve the lives of all Californians. This means affordable housing, good jobs, and access to quality education and health care. And, just as importantly, it means creating an easy path to retirement security for all working Californians. That is the mission of CalSavers and the reason why we are fervently committed to its success.

BY CALIFORNIA STATE TREASURER JOHN CHIANG

NOVEMBER 20, 2018

Clearing The Smoke: Which California Municipal Utilities Are Most Exposed To Potential Severe Or Catastrophic Wildfire Damage?

While many of the California utility issuers that S&P Global Ratings rates are exposed to some level of natural disaster risk, the incidence of catastrophic damage is extremely rare. In the past, we have typically observed wildfires that have damaged only a minor portion of an overall service area or disasters in which the severity of damage was manageable such that utility operations were restore…

Continue Reading

Nov. 20, 2018

Detroit Launches New Redemption of Bankruptcy-Related Bonds.

CHICAGO, Nov 20 (Reuters) – Detroit is eyeing savings from a just-launched redemption offer for bonds it issued in 2014 as part of the city's exit that year from its historic bankruptcy, municipal officials said on Tuesday.

The city is targeting $131 million of its nearly $632 million of series 2014B financial recovery bonds that mature in 2044 with a tender offer that expires Dec. 3. The move follows the redemption of $70 million series 2014C bonds earlier this year.

"This is a limited tender and we will only move forward if we achieve our savings goals," said John Hageman, chief of staff for the city's finance office, in a statement that did not disclose the goals.

Detroit issued the bonds as part of its federal court-approved plan to exit what was then the biggest U.S. municipal bankruptcy, which allowed the city to shed about $7 billion of its $18 billion of debt and obligations. Debt proceeds were used to fund settlements with bond insurers, interest-rate swap providers, city pension funds, as well as to raise money for capital projects.

The tender offers were initiated as a way to save money for Detroit, which has only been paying interest on the financial recovery bonds. Principal payments are due to commence in 2025 around the same time that higher-than-expected city pension contributions start.

Unlike previous bond redemptions, which were financed with a budget surplus and proceeds from a property sale, Detroit will pay for the latest one through financial recovery bond refunding issued via the Michigan Finance Authority and backed by a fifth lien on the city's distributable state aid revenue.

Early next month, Detroit will sell the first unlimited tax general obligation bonds on its own credit since the bankruptcy, which included defaults on GO debt.

Underwriters led by Goldman Sachs & Co are scheduled to price nearly $111 million of junk-rated bonds to fund capital projects under voter-approved authority that dates back to 2004 and 2009.

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

Moody's Investors Service recently warned that big capital needs at Detroit's public school system posed a threat to the city's "post-bankruptcy economic revitalization" unless the state or philanthropic community step in with funding.

[Fitch Ratings: New Constitutional Amendments Could Limit Flexibility of Florida Public Universities]

Fitch Ratings-New York-20 November 2018: The State University System of Florida's 12 public universities have more stringent requirements for raising revenues following passage of amendments 5 and 7 in the November election, according to Fitch Ratings. Amendment 5 will require a two-thirds vote (rather than a simple majority) by each chamber of the legislature to increase undergraduate in-state tuition levels, while amendment 7 will require a supermajority vote (rather than a simple majority) by the university's Board of Trustees or the Board of Governors to raise, impose or authorize any university fee (such as capital improvement fees, athletic fees, activity and service fees, student housing fees, transportation access fees, decal fees, and health fees).

The independent ability of public universities to set tuition rates is a sub-factor in Fitch's assessment of Revenue Defensibility in its 'Exposure Draft: U.S. Public Finance College and University Rating Criteria' (Criteria Exposure Draft, dated Nov. 15, 2018). However, in this assessment, Fitch also considers the level and consistency of direct and indirect support from the state government as an offset to tuition control imposed by the state.

In Florida, the legislature sets the undergraduate in-state tuition rate but tuition has not been raised for many years in an effort keep the cost of higher education affordable. Instead, Florida public universities receive generous levels of state operating support and other revenue allocations (performance funding, pre-eminent funding and other grant-like funding), and are expected to continue to do so. Moreover, tuition may not be pledged to any revenue bonds, pursuant to current Florida law. Fitch does not expect financial operations to narrow or overall credit quality to decline as a result of the new voting requirement in amendment 5.

The implementation of new university fees or increases to existing fees are typically approved by unanimous or near unanimous votes of the required board or boards. Since debt of Florida public universities is issued by blended component units (generally to support housing, parking and student health and other type of auxiliary systems on each university's campus), the debt is expected to be solely supported by the pledged revenues of these entities themselves. As such, the boards have covenanted in bond documents authorizing capital improvement debt to set fees at levels sufficient to cover debt service. The Board of Governors has stated that based on current Florida law, amendment 7 will not affect such covenants.

Fitch not does not expect any immediate impact on the financial operations of Florida's public universities or their auxiliaries as a result of the constitutional amendments; and expects little, if any, impact on their ability to repay debt obligations. However, over time, more stringent requirements for raising revenues could lead to erosion of cash flow and debt service coverage levels, particularly if there is broader university operating pressure. The amendment could limit a university's ability to make a rate adjustment if needed to offset enrollment decline. If several fees are collected, an increase in one pledged fee supporting an auxiliary system may need to be offset by a reduction in another auxiliary system fee, suppressing the pledged revenues that support that system's bonds. Pressure on cash flows supporting the pledged revenues for any one auxiliary system could have rating implications. In most cases, the sum of the fees is limited by law (to a percentage of student's base tuition fee) unless authorized by the state legislature, leaving limited flexibility to increase rates over time if needed.

Fitch continues to take a forward looking approach to ratings in the sector as described in the Criteria Exposure Draft. In its assessment of Revenue Defensibility, Fitch considers the level of local university control over tuition as one factor that could be deemed 'weaker' in this case. However, the final determination of the Revenue Defensibility assessment will also reflect other components, such as demand, market reach, pricing power and other revenue sources. Lack of tuition and student fee control could be expected to have greater impact on a smaller, regional public university with weaker or eroding demand than on a state flagship university with more resilient demand and other revenue sources available to preserve overall revenue levels going forward.

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DC's Green Bank Could Be a Powerful Tool to Fight Climate Change, if the City Funds It.

As the dust settles on the 2018 elections, the DC Council continues to weigh action on clean energy legislation that could halve greenhouse gas emissions in the region. The bill contains funding for a critical tool the Council adopted over the summer: the DC Green Finance Authority, a "green bank" which was established to leverage public and private funds to invest in clean energy technologies and infrastructure.

The Clean Energy DC Omnibus Act of 2018 would help DC transition to a greater reliance on renewable energy sources and reduce carbon emissions, which drive climate change. The record on the second of two DC Council committee hearings closed last week, and the Committees on Transportation and Environment and on Business and Economic Development will soon make recommendations on the bill.

Here's what a green bank does

In passing the Green Finance Authority Establishment Act this July, DC joined a growing list of jurisdictions creating so-called "green banks" that use various financial tools, including loans and credit enhancements, to support investment in clean energy projects.

Green banks use public dollars to attract private investment in projects using solar, wind, and other clean energy technologies. This reduces costs that can otherwise complicate or preclude the implementation of sustainable energy. Green banks are already operational in California, Connecticut, New York, and Maryland, among other places. The Connecticut Green Bank, for example, estimates that from its inception in 2011 through 2017, it drove public and private investment totaling more than $1 billion toward clean energy projects.

In a 2017 report prepared for the DC Department of Energy and Environment (DOEE), the non-profit Coalition for Green Capital (CGC) defined the goal of green banks as "accelerat[ing] the deployment of clean energy by removing the upfront cost of adoption, leveraging great private investment in clean energy, and increasing the efficiency of public dollars." The CGC report shows that the District's current levels of private investment are far from sufficient to meet the potential demand.

DC's law allows the Green Finance Authority to use its funding for various financing tools. For example, the bank might use loan loss reserves and loan guarantees ("credit enhancements") to make private investment more secure, and thus more attractive. Alternatively, it might offer a loan for a particular project, supplementing private funds and thereby facilitating more clean energy projects and more investment.

In general, green banks prefer *financing* rather than *grants*. Green banks start with some initial funds, and while grants would deplete the bank over time and require periodic recapitalization, financing enables the bank to recycle capital through multiple projects over time.

Because green banks want to preserve their capital, they tend to prefer low-risk investments that facilitate short-term cash flow. That means the Green Finance Authority will likely promote investments in specific projects and in the application of mature technologies, rather than funding development of new modes of clean energy. Installation projects (think solar panels and fuel cells) tend to carry less risk and also create revenue streams as consumers divert their utility payments to (less expensive) loan repayment.

Could this be successful in the District?

Though the District offers a substantial clean energy market, the success of the Green Finance Authority will depend significantly on its own management and strategy. Because the projects facing the largest private funding gap are smaller, distributed projects, the Green Finance Authority will need to actively solicit private investors.

Strong oversight will also allow the bank to successfully engage in more complex funding strategies, such as "warehousing." That's where the bank bundles smaller loans and sells them to private investors at scale.

The Green Finance Authority's responsibilities will also reach outside its own confines. The bank will have the authority to provide technical assistance in the development of sustainable programs more broadly. It will also seek to implement projects that complement other DC government sustainable energy initiatives through a Special Committee on Sustainable Program Cooperation.

Though certain details of the Green Finance Authority remain unresolved—DOEE's solicitation of proposals for plans to "stand up" the green bank closed on November 13—one question certain to arise in the coming years will be the matter of funding. The CGC has estimated that every $1 in public capital can attract $5 in private funding, potentially helping the District take significant strides toward its renewable energy goals.

But while the Establishment Act identifies several potential funding sources (including federal funds, donations, settlement proceeds, loan repayment and interest, and Green Finance Authority revenues), it does not provide for any specific allocation. It does refer to a $7 million transfer from the District's Renewable Energy Development Fund (REDF), but only if that transfer is included in an approved budget and financial plan.

Here's what's next for DC's green bank

As the DC government continues to roll out the Green Finance Authority, it may answer the critical funding question through action on the Clean Energy DC Omnibus Act. The current draft of that bill would secure for the Green Finance Authority $70 million in funding from the Sustainable Energy Trust Fund, to be spread out over six years.

Should that legislation stall out, the DC government will need to return to the drawing board. Other potential funding options including upfront capitalization (potentially including the REDF transfer, which would likely require supplementation for the bank to be successful) or bond issuances. DC must also appoint the governing Green Finance Authority Board, which will be filled by four non-voting District government executives and seven voting members appointed by the mayor.

Regardless, if the recent elections demonstrated the public's faith in the District's incumbent lawmakers, it may soon be time for those representatives to pay up with real support for a critical tool for fighting climate change.

Greater Greater Washington

By Jake Grubman

November 15, 2018

Ohio Becomes First State to Accept Bitcoin for Tax Payments.

"Warren Buffett called Bitcoin 'rat poison,' but the technology behind it is something everyone can agree on. …

Here's how it works: a business signs up through OhioCrypto.com, enters their tax payment information then pays through a third-party processor, BitPay. BitPay then converts the bitcoin into dollars that are deposited into the state's accounts. There is a minimal fee, 1 percent, for the transaction compared with 2.5 percent assessed when businesses use credit cards."

Read the full article on: The Cincinnati Enquirer

Truth in Accounting

Jessie Balmert | November 26, 2018

Voters Give Another Multi-Billion-Dollar Thumbs Up to California School Bonds.

Election results may still be in flux throughout California, but on school spending, one trend is clear: Once again, voters appear to have given a hearty thumbs up to borrowing for local school improvements, with nearly $12 billion in new bond measures on track to being approved.

About 80 percent of the local bond measures on the Nov. 6 ballot—83 out of 105—appear headed by toward approval, according to preliminary election results compiled by Michael Coleman, fiscal policy adviser for the League of California Cities.

Voters also appear to have approved harder-to-pass parcel taxes, which pay for classroom-related expenditures, in seven out of 12 school districts. A handful of measures remain close calls, so the projected outcomes in some ballot measures could change.

Continue reading.

CalMatters

By Ricardo Cano | Nov. 10, 2018

California Voters Back $1.5B Bond Initiative to Upgrade Children's Hospitals.

California voters have approved a $1.5 billion bond measure to help the state's children's hospitals fund renovations, expansions and upgrades, The Mercury News reported.

The California Children's Hospital Association sponsored the measure, which will provide bond money over 15 years to eight nonprofit hospitals and five University of California hospitals.

Nearly 75 percent of the bond money will go to nonprofit facilities, including Lucile Packard Children's Hospital in Palo Alto, while 18 percent will go to UC hospitals, including UC San Francisco. About 150 California hospitals that treat children will also have 10 percent available in competitive grant funds.

The association said the bond money would help hospitals expand and improve facilities and acquire equipment, "so more kids will have access to the specialized care they need."

Opponents, including the League of Women Voters of California, said that state money shouldn't go to private facilities and there other ways to pay for the improvements, according to the report.

Becker's Hospital Review

Written by Kelly Gooch | November 09, 2018

S&P: Thanks To A Strong Economy, California's School Districts Can Face Continued Pension Increases -- Though Will This Last?

For the last several years, school districts in California have faced continued increases to pension contributions. Offsetting these increases, however, has been a strong state economy that has produced substantially more revenue for schools. As a result, S&P Global Ratings has not seen any evidence of widespread adverse credit impacts to schools, and believes that school districts have the flexible…

Continue Reading

Nov. 8, 2018

The California Wildfires' Financial Toll.

In every disaster, natural or man-made, a price is exacted first in human terms. From the relative safety of where I write this, I can recall the damage from superstorm Sandy that crippled the Northeast six years ago, and from which many in the area have yet to recover. Yet that pales next to the wildfires that have engulfed California, which follows this year's crop of hurricanes in the East. The toll isn't only human, either; our foster dog rescued after Hurricane Florence just left for her permanent home on Thursday.

Even though it might be unseemly to consider the economic costs while the wildfires are still burning in California and the fatalities are still climbing, they can't be ignored. A price is already being exacted in the declines in the prices of securities of the entities affected. There will also be costs for insurers and property owners, as well as for state and local government budgets. Finally, there is an as-yet incalculable hit to property values, not just from the current damage, but also the concerns of potential buyers who may be reluctant to bear the environmental risk that has become increasingly apparent.

The most dramatic, immediate impact has been on the stock of utility PG&E (ticker: PCG), which plunged 31% on Thursday, pushing its loss past 62% in the five trading sessions to that point. But the shares jumped in after-hours trading Thursday and were up 38% in Friday trading. That bounce came after Bloomberg reported that, in a conference call for investors organized by Bank of America Merrill Lynch, the California Public Utilities Commission indicated that it didn't want PG&E to enter bankruptcy.

The utility conceivably could have embraced Plan B—meaning bankruptcy—wrote Carol Levenson, who heads Gimme Credit, the very independent credit analysis firm. That was especially clear after a filing with the Securities and Exchange Commission last week disclosed that PG&E had fully drawn down its $3.3 billion revolving credit facility and had made an "electric incident report" the day California's fire began.

A PG&E spokesperson wrote in an email that the borrowing was "to provide greater financial flexibility, including to pay down coming debt maturities and for general business purposes."

Moody's Investors Service also late Thursday downgraded PG&E's debt to Baa3, the rating firm's absolute lowest rating before crossing into junk territory, where the power company's bonds already trade, based on the prices they're fetching. Standard & Poor's took the equivalent step of cutting its rating to BBB-minus, its lowest investment grade. While Levenson wrote that the ratings firms' actions weren't financially crippling, she warned that the potential liability warrants a junk rating, and she recommends selling the bonds.

The PG&E 6.05% bonds due March 1, 2034, traded at 97 Friday, for a yield to maturity of 6.36%, or 3.03 percentage points over the comparable Treasury.

For California's finances, there is good news, along with bad news. Natalie Cohen, formerly head of municipal research at Wells Fargo Securities and now in charge of National Municipal Research, an independent public-finance analysis firm, notes that the Golden State's finances were in tiptop shape as of Sept. 30. But they surely suffered in the fourth quarter, owing to the record-breaking fires.

There are other factors to consider, she continues in an email. At the local level, hits to property values may hurt the municipalities affected by the fires. Insurance often doesn't cover the full property and casualty losses for schools, public hospitals, and infrastructure. So local governments may strain to pay for rebuilding.

On the other hand, Cohen continues, spending and employment to put things back together generates a surge in income and sales tax revenues. Hotel taxes should also benefit as occupancy jumps from stays by residents who have lost their homes. But tourism is certain to suffer.

Finally, California's state revenues depend heavily on capital-gains taxes, so she posits that the recent stock-market setback may be costly. Yet despite the seemingly annual hits from fires (2017's had been thought to be the worst ever, with insured losses of $12.6 billion, according to Moody's estimates for property and casualty insurers), Cohen remains impressed by California's resilience.

One has to wonder, though, what effect the seemingly annual wildfires will have on the perceived livability of California and on the state's population trends, Patricia Healy of Cumberland Advisors writes in a client note.

If California were a sovereign nation, its gross domestic product would be the fifth largest in the world, ahead of Britain's. Given that, California's strengths and resilience are formidable. Even so, Healy points out, municipal-bond investors should diversify among credits within the state—something the wild fires have emphasized again.

Taxes are a powerful incentive for California muni investors to stick with in-state credits, which are exempt from state and federal taxes. The top state income tax bracket is 13.3%, and under the new tax laws, the federal deduction for state and local taxes is capped at $10,000. Diversification among various types of credits and sectors, from tax-supported general obligations to revenue bonds for water and health-care systems, can mitigate risk for investors sticking to their home state, she adds.

There are considerations other than dollars and cents, however. Philippa Dunne of the Liscio Report, who grew up in Malibu, writes that the fires were a central part of her childhood. Dragging panicked horses from their stalls for the safety of the beach when fires raced through her area was her job, which provided a unique perspective.

She writes that she spoke recently with a real estate agent friend from Montecito, which she describes as "one of the most idyllic places on earth." He said he couldn't tell if business was slow because of the rise in mortgage rates or maybe "because buyers are afraid to invest in multimillion-dollar properties threatened by fires and rushing mud." (Mudslides are a problem in the Golden State, too.)

For now, investors are trying to come to terms with the immediate losses from the California fires. Once the damage is repaired, the question will remain: Who will want to face the seemingly annual onslaught of fires and their aftermath? A similar question may be asked of Florida and the rest of the Gulf and Atlantic coastal regions beset by seemingly worsening hurricanes. Regardless of whether one accepts the scientific evidence of climate change, the economic risks appear to be increasing. And increased risk inevitably is reflected in asset prices.

Barron's

By Randall W. Forsyth

Nov. 16, 2018 1:06 p.m. ET

Fitch Rtgs: Latest CA Wildfires Highlight Natural Disaster Risk for Remote Areas

Fitch Ratings-San Francisco-16 November 2018: Similar to past wildfires, Fitch Ratings sees no immediate credit impact on Fitch-rated U.S. public finance credits from the current California wildfires, which are ongoing both in Northern California in Butte County and Southern California in Ventura and Los Angeles Counties.

The primary areas affected by the latest fires are in Butte County (Camp Fire) and in and around the city of Thousand Oaks in Ventura County as well as adjacent areas of Los Angeles County (Woolsey Fire). The Camp Fire has burned over 142,000 acres and was reportedly 45% contained as of Nov. 16. The Woolsey Fire has burned over 98,000 acres and is 69% contained.

As with most natural disasters, Fitch believes the fiscal impact of the fires on rated entities in Ventura and Los Angeles Counties will be largely mitigated by their financial flexibility and support from federal and state governments and private insurance policies. The federal government declared a federal disaster on Nov. 12.

The local governments affected by the fires are likely to use a combination of federal relief funds, state support and insurance claims to pay for most fire-related damage. Economic damage, such as lost tourism income, and crop damage and lost revenue due to school closures, is likely to be temporary and followed by significant increases in economic activity as communities rebuild after fires or waived by the state in the case of lost school revenue due to fewer school days.

Individuals and local governments can seek assistance from the federal government. In addition, the state of California’s fiscal 2019 enacted budget includes $2.3 billion in the state’s fund for economic uncertainty which can be tapped for unexpected events such as natural disasters. Despite the state and federal assistance available, the recurrence of wildfires in certain parts of the western states does point to the need to maintain reserves for economic or capital emergencies. Once federal and state assistance ends, if an isolated community such as Paradise does not rebuild, the reduction in tax revenues could cause an ongoing mismatch between revenues and expenditures.

Fitch does not rate any entities in Butte County; however, the devastation in Paradise points to the inherent asymmetric risk of natural disasters in smaller, remote areas where a single incident can devastate such a large proportion of a local or regional economy. The fire has reportedly destroyed over 90% of residences and 50% of the businesses in Paradise. The lost housing makes up about 10% of the entire county’s housing stock. It is not clear if/when residents will be able to return and how many businesses will decide to remain.

Ventura County (Issuer Default Rating (IDR) ‘AA+’), located north of Los Angeles County, is a mix of suburban, rural, tourism, military and agriculturally-oriented communities and had a 2017 population of over 850,000. Fitch expects any near-term budgetary fire-related impacts due to assessed valuation (AV) declines and the added cost of fire-fighting and clean-up to be manageable relative to the county’s roughly $1 billion general fund budget. Given its location within the greater Los Angeles metropolitan area, Fitch expects most damaged property in affected communities in Ventura County to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the area.

Conejo Valley Unified School District (‘A+’IDR/’AAA’ 2018 general obligation bonds) is located in Thousand Oaks where the Woolsey Fire started. The district has closed all schools until Nov. 26 and reports that while no schools sustained any structural damage, all require some level of restoration and/or cleaning.

The following school districts were closed for one or more days due to air quality but are now all reopened:

–Hueneme Elementary School District (‘AA-‘ IDR);
–Mesa Union School District (‘AA’ IDR);
–Simi Valley Unified School District (‘A’ IDR/’AAA’ 2016 and 2017 GO bonds);
–Oxnard Union High School District (‘AA-‘ IDR).

On Nov. 9, Tom Torlakson, the state’s superintendent of public education announced that state assistance is available for any schools forced to close. State law allows local educational agencies to apply for a waiver to hold them harmless from the loss of Local Control Funding Formula (LCFF) funding based on attendance and state instructional time penalties, if they have to close because of a natural disaster such as floods, fires, or earthquakes.

On Nov. 16, schools, universities and other facilities throughout the Sacramento and Bay Areas are closed to due unhealthy air quality.

For more information on environmental risk considerations in Fitch’s ratings, please see “Environmental Risk in U.S. State and Local Government Ratings” at https://www.fitchratings.com/site/re/10031874.

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Chicago's Focus Turns to Pensions After Budget Approval.

CHICAGO — The Chicago City Council on Wednesday gave overwhelming approval to the final budget proposed by Mayor Rahm Emanuel, who leaves office next year, and who said he will address looming pension funding challenges in December.

“Our work is not done but we can say given where we were at a fiscal cliff seven years ago, financial drain on the city, we can say with confidence we’re back on solid ground,” Emanuel told the council following its 48-1 vote on his $10.67 billion budget for fiscal 2019.

The mayor, who announced in September he will not seek a third term in office, said he would return to the 50-member council next month to lay out “necessary steps” for city pensions.

Chicago’s unfunded pension liability was $28 billion in 2017, down from $35.7 billion in the prior year. The big liability, along with years of budget deficits, led to downgrades of Chicago’s general obligation credit ratings and higher borrowing costs.

The third-largest city in the United States also faces pension contributions that will grow to $2.13 billion in 2023 from $1.02 billion this year even after raising fees and taxes to save the city’s four pension funds from becoming insolvent. A decision on pursuing the issuance of as much as $10 billion of pension debt had been delayed in the wake of Emanuel’s lame-duck status and rising interest rates.

S&P Global Ratings, which rates Chicago BBB-plus, last month cautioned Chicago about the use of pension obligation bonds (POBs).

“Depending on the structure of the POBs and whether or not the city would make changes to its pension funding discipline, issuance could have rating implications for Chicago,” the credit rating agency said.

The spending plan for the fiscal year that begins on Jan. 1 includes a $3.82 billion operating budget, but no new tax increases.

It also aims to eliminate a projected $98 million deficit, the smallest since fiscal 2008, and accommodate nearly $114 million in additional spending through various measures, including savings from refinancing outstanding GO bonds with a higher-rated securitization of sales tax revenue.

The city placed a $1.3 billion bond refunding issue on hold late last month because of adverse conditions in the U.S. municipal market. Kristen Cabanban, a spokeswoman for Chicago’s finance department, said the city’s Sales Tax Securitization Corporation will sell approximately $624.6 million of tax-exempt bonds on Thursday.

By Reuters

Nov. 14, 2018

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

Here's Where Emanuel's $1.5B-plus New TIF Districts Would Go.

City Hall is racing the clock to lock in development deals for a series of megaprojects.

Racing against the electoral clock, the Emanuel administration is moving quickly to lock in development deals for a series of megaprojects in neighborhoods abutting the central area of the city—potentially providing a huge boost to Chicago’s economy but at a cost of what easily could be $1.5 billion or more in subsidies.

In an interview, David Reifman, commissioner of the city’s Department of Planning & Development, said he hopes to win final approval by May of pacts involving the 62-acre vacant property that developer Related Midwest wants to build along the east bank of the river from Roosevelt Road to Chinatown; the Lincoln Yards project that developer Sterling Bay wants to build along the North Branch of the Chicago River between Lincoln Park and Bucktown; and the long-vacant former site of the Michael Reese Hospital on the east edge of the Bronzeville neighborhood. May is when Mayor Rahm Emanuel leaves office.

The administration also would like to see a deal involving Tribune Media's riverside parcel between Grand and Chicago avenues—a project it has dubbed the "River District"—with work already underway on a less-noticed NorthPoint industrial development at 120th Street and Avenue O, Reifman said.

Continue reading.

CRAIN'S CHICAGO BUSINESS

GREG HINZ ON POLITICS

November 05, 2018 12:27 PM

Credit Agency Says Detroit Development Must Expand Beyond Downtown.

Detroit's ready to issue bonds that are not backed by the state of Michigan. Moody's Investors Service reports the city should be able to handle that. But Moody's says Detroit's future rests on economic development reaching the city's neighborhoods.

The credit ratings service Moody's says Detroit has recovered enough from bankruptcy to safely borrow millions of dollars without being backed by the state of Michigan.

But Moody's is concerned whether the city's recovery will continue if it is mainly anchored in Detroit's downtown.

Moody's reports that Detroit officials plan to issue $115 million in tax-exempt municipal bonds around the beginning of December.

The Detroit City Council had previously approved a request from Mayor Mike Duggan to issue a total of $255 million in new bonds over the next five years.

The borrowing is supposed to pay for capital projects in the city.

The credit ratings agency Moody's approves of the move, noting there's been an economic resurgence in Detroit's downtown since it exited the nation's largest-ever municipal bankruptcy.

But Moody's warns that Detroit will continue to see people move out if progress does not extend to the city's neighborhoods.

Moody's estimates Detroit has lost about 35,000 residents since 2010.

The credit ratings agency also fears the Detroit Public Schools Community District could dramatically slow the city's revitalization.

The school system was rescued by the state of Michigan and now has very little funding on hand to make badly-needed improvements to its buildings and infrastructure.

Nov. 12, 2018

Labor Unions File Pension Lawsuit Against Puerto Rico.

CHICAGO — Puerto Rico violated a law meant to safeguard the pensions of its public-sector workers who have been unable to invest the more than $300 million they contributed to a new retirement plan, according to a lawsuit filed against the U.S. commonwealth's government and others by two labor unions on Thursday.

The litigation, filed in U.S. District Court in San Juan, joins a long list of adversary cases in a form of bankruptcy Puerto Rico's federally created oversight board initiated in May 2017 to restructure the island's $120 billion of debt and pension obligations.

It is also the latest chapter in a fraught relationship between Puerto Rico and its government employees, particularly teachers.

In the latest lawsuit, the American Federation of Teachers and the American Federation of State, County & Municipal Employees point to Law 106, enacted in August 2017 to require wage deductions from workers participating in a new retirement plan to be placed into segregated employee-controlled, 401(k)-style accounts that they said have not been created.

The unions claim that while workers' contributions totaled $316 million as of July 31, employees have been unable to invest the money, missing out on "historically high stock market returns."

"For all intents and purposes, the commonwealth is seizing employees' own funds and hiding them under a mattress – in this case, upon information and belief, government bank accounts at Banco Popular earning virtually zero interest," the lawsuit claimed.

The unions, which represent thousands of teachers and government workers in Puerto Rico, asked the court to find the defendants in violation of Law 106 and of their fiduciary duties and require the creation of accessible retirement accounts by yearend. The lawsuit also seeks an undetermined amount of compensation for lost investment income.

Defendants in the lawsuit include Banco Popular, Puerto Rico's governor, chief financial officer, treasurer, fiscal and financial advisory authority, retirement board, as well as the oversight board. The latter, an entity established by a federal law known as PROMESA, failed to force the commonwealth government's compliance with the law, according to the lawsuit.

"We agree the government of Puerto Rico should set up the defined contribution accounts as soon as possible; however, we won't comment on the lawsuit at this time," Natalie Jaresko, the oversight board's executive director, said in a statement.

There was no immediate comment on the litigation from the other defendants.

By Reuters

Nov. 16, 2018

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

[Puerto Rico Tax Shift to Legalize Slot Machines Outside Casinos.]

- **Lawmaker says bill to boost revenue by $400 million annually**
- **Other provisions tax off island companies, including lawyers**

Puerto Rico's lawmakers approved legislation that would vastly overhaul taxation on the island, including through controversial provisions that legalize certain types of still-underground gambling.

The bill, which received final approval by the Senate late Tuesday, would also impose a 29 percent tax on non-island companies that provide services to the Puerto Rican government, including lawyers and financial consultants involved with the commonwealth's record setting bankruptcy. It now goes to Governor Ricardo Rossello for his signature.

The legislation would also reduce the corporate tax to 18.5 percent from 20 percent. But overall, the changes are projected to increase annual revenue by as much as $400 million a year, in part due to other new forms of taxation, according to Carmelo Rios, majority leader in the Puerto Rican Senate.

With much of the overhaul widely supported, the recent debate has centered around a contentious provision to legalize slot machine-like gambling terminals outside of casinos. The bill allows for as many as 50,000 so-called video lottery machines, which lawmakers project will generate some $100 million a year in revenue for the bankrupt U.S. commonwealth.

An estimated 25,000 such terminals are already operating illegally around the island in bars, supermarkets and even gas stations.

"These machines already exist and compete with our casinos," Senator Rios said Wednesday in a phone interview.

The island's federal oversight board — which was installed by the U.S. Congress to help chart Puerto Rico's fiscal turnaround — said before the vote that it hadn't seen evidence that the video lottery proposal wouldn't eat into other island revenue streams. The government currently allows for the operation of on-island casinos, an important part of the tourist economy and a significant generator of taxes, which go in part to the commonwealth's general account, as well as to the University of Puerto Rico and the Puerto Rico Tourism Company.

The bill allocates the lottery machine revenue to the police pension fund and municipal governments.

The 29 percent tax on the government's service providers — in addition to mainland federal taxes — is partially meant to encourage companies to set up shop locally with a local payroll, according to accountant Kenneth Rivera, a former head of the local chamber of commerce.

Bloomberg Markets

By Yalixa Rivera

November 14, 2018, 2:56 PM MST

Fitch Ratings: Amazon HQ2 Split Has Muted Upside for New York & Virginia

Fitch Ratings-New York-07 November 2018: A prospective Amazon headquarter split between Long Island City in New York and Crystal City in Northern Virginia would have at most a muted impact on the economies and credit quality of Arlington County and New York City, according to Fitch Ratings. The final announcement is expected by year end, although it may come as early as later this week.

The total impact of HQ2 is expected to include 50,000 new employees with an average salary of over $100,000 within 15 years and more than $5 billion in investment over up to 17 years. The additional economic activity could positively affect two of the four local government key rating drivers Fitch assigns, revenue framework and long-term liability burden, over the long term. However, given the large size of the locations remaining in contention, any impact would be modest, particularly if HQ2 is split.

We do not expect much change in home prices in either location as healthy economic dynamics are already pushing up prices and supply should be sufficient to absorb the needs. The Washington, D.C. area is more likely to benefit than New York City as it has slower growth in rents and home prices.

Similarly, an Amazon HQ2 split would not have much effect on employment. An analysis conducted by Fitch earlier this year indicates that even the full impact of HQ2 would represent a modest 1.5% of the labor force in the Washington, D.C. Metropolitan Statistical Area (MSA) and only 0.5% in the vast New York City MSA. Both MSAs have low unemployment rates. The impact could be more significant if the new facilities attract substantial numbers of related jobs.

The direct impact on local government revenues from Amazon will be reduced not only by splitting HQ2 but also by anticipated state and local incentives. The winners and their surrounding MSAs will see some indirect benefit from increased tax revenues generated by employees and related businesses.

Fitch rates Arlington County ‘AAA’/Stable and New York City ‘AA’/Stable. Both already have ‘aaa’ assessments on their revenue frameworks. New York City has a weaker long-term liability assessment at ‘a’, but the incremental growth in the resource base from one of the HQ2’s would be insufficient to improve the assessment. Arlington County’s long-term liability assessment is already strong at ‘aaa’.

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

Connecticut Tolling Plan Offers $1 Billion in Projected Revenue.

A report released by the state shows some of the different proposed costs for commuters, out-of-state truckers and others using the proposed tolled routes.

As state governments continue to face constrained sources of revenue to fund transportation projects, some have been interested in adding tolls to highways that are currently free.

It’s a political hot potato for sure and something that isn’t a new idea in places like Connecticut, a state that faces numerous fiscal challenges and deteriorating roads and bridges.

Outgoing Gov. Dannel Malloy’s administration recently released a new report showing that introducing all-electronic tolling to highways across the state would raise approximately $1 billion annually.

Continue reading.

Route Fifty

By Michael Grass,
Executive Editor

NOVEMBER 16, 2018

New California Governor's First Priority Is Good News for Investors.

California Governor-elect Gavin Newsom’s top item on his agenda after winning the race to succeed Jerry Brown Tuesday is one important to municipal investors: the state budget.

“The number one priority right now is the budget,” the Democrat told reporters in San Francisco Thursday at his first news conference after the election. “I know everyone says that and they all say it. They should.”

He said the fiscal blueprint is “being put together as we speak” and that it should be “fully baked” around December 15. The state’s constitution requires that the governor submit a balanced budget to the legislature by Jan. 10.

Municipal investors are looking to the budget for signs that Newsom would continue the fiscal discipline Brown was credited for. Newsom on the stump has pledged to work for ambitious goals, from single-payer health care to universal pre-school, and bond buyers want to see how he would balance them against the threat of billion-dollar deficits during a recession.

Brown, a term-limited Democrat, has warned of the risk of new spending commitments when a recession occurs, which some economists see as soon as next year. California's finances are particularly vulnerable in a downturn because of its reliance on wealthy residents for income-tax collections.

Bloomberg Business

By Romy Varghese

November 8, 2018, 12:23 PM PST

California Rejects Repeal of Gas Tax Increase.

Golden State voters rejected Proposition 6, an effort to repeal increases to California's fuel and vehicle taxes enacted last year by the Democrat-controlled state legislature.

Governor Jerry Brown signed the tax package, which boosted gas taxes by 12 cents a gallon, to raise $5 billion annually for transportation improvements. Many in the state objected to the tax increase after years of shouldering among the nation's highest gas prices, leading to the attempt to repeal the tax.

GOP leaders saw the issue potentially stoking turnout among Republicans, although support for the gas tax rollback faltered. A mid-October poll by the Public Policy Institute of California showed the measure would likely fail by a small margin.

The measure would have also required voters to approve future gas tax increases, a shift Fitch Ratings and municipal-bond investors warned could limit the state's financial flexibility in a recession.

Bloomberg Politics

By Jeffrey Taylor and Romy Varghese

November 6, 2018, 11:09 PM PST

LA Voters Overwhelmingly Reject City-Owned Bank.

LOS ANGELES (CBSLA) – Los Angeles voters Tuesday overwhelmingly rejected the proposed creation of a city-owned bank, something first suggested more than a year ago as a way to finance local entrepreneurs and affordable housing while also potentially creating a safe avenue for marijuana businesses.

By a margin of 57 to 42 percent, voters soundly rejected Measure B, which would have amended the city charter to allow it "to establish a municipal financial institution or bank."

The L.A. City Council unanimously in June to place the ballot measure before voters.

Since City Council President Herb Wesson introduced the idea last year, the city council's Ad Hoc on

Comprehensive Job Creation Plan Committee has held several meetings on the topic, but many of the key details on how or if the city could actually create its own bank remain unanswered.

Wesson's motion acknowledged the uncertainty, noting, "There are many milestones that must be met in order to achieve the formation of a municipal bank. Changes in federal and state law are necessary and significant decisions regarding the governance structure of a municipal bank must be made."

In December of last year, lawyers with the City Attorney's Office told the committee the public bank would be subject to the same laws that any other bank is when it comes to marijuana businesses. And since marijuana is still a Schedule 1 drug at the federal level, accepting deposits from cannabis businesses could violate the Banking Secrecy Act and open the city and employees at the bank to potential liability, the attorneys said.

However, there are efforts both at the state and federal level to change laws that would allow cannabis businesses to freely use banks, including the SAFE Banking Act, which is under consideration by a Senate committee and would make banking legal for the cannabis industry in states that allow the sale of the drug.

No city in America has its own bank, and the only public bank in the nation is the Bank of North Dakota, which was created in 1919.

November 7, 2018 at 1:00 pm

Judge Approves Restructuring for Puerto Rico Government Bank.

SAN JUAN, Puerto Rico — A federal judge overseeing a bankruptcy-like process for Puerto Rico has approved the restructuring of the island's Government Development Bank in a move that officials called a "major milestone."

The government issued a statement saying Tuesday's ruling is a significant step forward for the U.S. territory as it tries to restructure a portion of its more than $70 billion public debt. The bank oversaw the island's debt transactions and was a lender to the central government and municipalities.

A federal control board overseeing Puerto Rico's finances also praised the ruling, which comes as the island struggles to emerge from a 12-year recession.

The Associated Press

Nov. 6, 2018

Experts Warn Puerto Rico at Risk Amid Lack of Disaster Plan.

SAN JUAN, Puerto Rico — More than a year after Hurricane Maria caught Puerto Rico's government wildly unprepared, officials acknowledge they still haven't come up with a plan to cope with the next such disaster — and it's not clear when they will.

The U.S. territory's government insisted for months that it had a complete, updated disaster plan, saying it was kept secret due to protect information about vulnerable infrastructure and officials' private contact details.

But a suit filed by Puerto Rico's Center for Investigative Journalism led officials to concede last month that that plan doesn't deal with catastrophic events such as hurricanes and earthquakes, prompting outrage on an island where many blame government bungling for the estimated 2,975 deaths linked to Category 4 Hurricane Maria, which hit in September 2017.

"The government has clearly failed the people and hid the fact that the plan was under revision," said Nazario Lugo, a former executive director of Puerto Rico's emergency management agency and president of the island's Association of Emergency Managers.

"We are talking about the lives of people. Someone is not going to react the way they're supposed to. This is a team effort, and when the team is not in tune, when it's not in position, it fails," he said. "Lives are lost."

Carlos Acevedo, director of Puerto Rico's Bureau for Emergency and Disaster Management, did not respond to requests for comment about why the plan hasn't been updated.

At the Oct. 30 court hearing, government lawyer Tania Fernandez said she didn't know when the plan would be finished and made public because officials haven't yet hired experts to create such plans.

A partial plan released by the government last month stresses the risks of poor preparation and blames previous administrations.

"The consequences of Hurricane Maria made it clear that we did not have emergency plans that contemplated such scenarios, nor the sufficient resources to face catastrophic disasters of such historical magnitude," the document states.

However, Lugo and another former emergency management agency director, Epifanio Jimenez, said Puerto Rico has had a plan for a Category 4 hurricane that was drawn up after Hurricane Hugo, a Category 3 storm, hit the island in 1989. They say Gov. Ricardo Rossello's administration failed to follow it.

"They're using the impact of Maria … to justify the unjustifiable," Jimenez said of what many consider a botched government response to that storm. "Improvisation is the worst enemy of emergency management, and we saw that."

Lugo and Jimenez said that emergency response was hindered by a lack of fuel and truck drivers, communication between local government agencies broke down, supplies weren't dispatched quickly enough and officials didn't know the immediate needs of each municipality.

Despite the lack of a finished formal plan, local and federal officials have learned lessons from Maria and are more prepared than they were when that storm hit, according to Jesus Cuartas, an operational planning chief for the Federal Emergency Management Agency, who urged patience.

"We are not racing for time," he said. "Any plan that is simply rushed out the door … the thought of that being viable is slim to none."

The Associated Press

Nov. 6, 2018

[Rising Costs Feared to Crimp Puerto Rico's Building Boom.]

Contractors worry minimum-wage law and Trump administration tariffs could slow rebuilding efforts

Miguel Córdoba had trouble finding steady work as a carpenter and handyman before Hurricane Maria devastated Puerto Rico last year. Now the 52-year-old says he pulls steady 40-hour workweeks for a taxpayer-financed housing program that repairs damaged residences.

His wages have nearly doubled, too, thanks to a new minimum-wage law enacted last summer by Puerto Rico Gov. Ricardo Rosselló, coupled with a surge in demand for construction labor across this struggling U.S. territory. Mr. Córdoba spent his summer days fixing roofs and windows and installing toilets, wash basins and cabinets in houses mostly in eastern Puerto Rico, where Hurricane Maria first made landfall.

The construction workforce, estimated at roughly 33,000 before Hurricane Maria, will need to double to keep up with demand to rebuild roads, houses and other infrastructure damaged in last year's storm season, said Emilio Colon-Zavala, president of the Puerto Rico Builders Association. Cement sales, a proxy for construction activity, increased for eight months straight after Hurricane Maria to 33% above prestorm levels.

Continue reading.

The Wall Street Journal

By Andrew Scurria and Julie Wernau

Nov. 6, 2018

[Atlanta Suburb Rejects City Breakup That Unsettled Wall Street.]

In a 29,000-resident city on the outskirts of Atlanta, voters struck down a ballot proposal that would have allowed the wealthiest neighborhoods to secede and form their own town, according to the Atlanta Journal-Constitution.

The referendum in Stockbridge, Georgia, is the sort that would usually get little national notice. But it could have created a worrisome precedent: The proposed municipality would have taken about half the city's tax revenue with it while leaving Stockbridge with all of its debt. S&P Global Ratings said the credit ratings of Georgia cities could be jeopardized if such crackups proliferated.

Bloomberg Politics

By William Selway

November 7, 2018

[City Not for Sale: Baltimore Voters Push Back on Privatization]

- **Measure to keep water works public passing by wide margin**
- **Baltimore would be the biggest U.S. city to take that step**

Baltimore's water works won't be sold off.

Voters in Maryland's largest city on Tuesday by a vote of 77 percent supported a ballot measure that bars it from privatizing the government-owned water and sewer system, with votes from all but six precincts reporting, according to preliminary returns.

The results promise to make Baltimore the biggest American municipality to ensure that its system remains in public hands, bucking a movement by companies including America Water Works Co. to run such utilities. Some cities, including Allentown, Pennsylvania, have relinquished control of utilities in order to raise needed cash, and Jacksonville, Florida, has weighed whether to privatize its electric and water system.

The election in the 612,000-resident city came as Democrats won the U.S. House of Representatives from Republicans. President Donald Trump unsuccessfully pushed for a broad expansion of private investment in America's infrastructure, seeing it as a way to reduce the federal cost of improving roads, bridges and other public works. To advance any infrastructure plans, he'll now have to work with a party less welcoming to privatization.

Bloomberg Politics

By Danielle Moran

November 7, 2018, 11:34 AM PST

[S&P State Brief: Rhode Island]

The 2019 Rhode Island budget demonstrates a determined effort to keep expenditures in line with modest revenue growth. A larger-than-expected surplus in 2018 provides the state some additional budgetary flexibility in the current year. In May 2017, the Employees' Retirement System of Rhode Island board reduced its pension discount rate from 7.5% to a more conservative 7.0%, along with other assump…

[Continue Reading]

Nov. 5, 2018

[S&P State Brief: North Carolina]

North Carolina's economy has diversified over time and demographic trends remain relatively healthy with a continued modest pace of economic recovery since the Great Recession. The state is managing growth and its financial future by addressing its long-term liabilities. This year, it enacted the 2018 Build NC Bond Act, a $3 billion authorization of appropriation-backed obligations of up to $300…

[Continue Reading](#)

Nov. 5, 2018

[Yes For Affordable Housing – The Impact of Oregon's Measure 102](#)

Oregonians approved statewide ballot Measure 102 on November 6 and, in doing so, have provided local governments in Oregon with a powerful new tool to help address Oregon's affordable housing crisis. The passage of Measure 102 offers new opportunities for partnerships between local governments and private entities to develop and preserve affordable housing throughout Oregon.

Housing Crisis in Oregon

Many Oregonians struggle to afford housing. The cost of housing in Oregon has risen by more than 300 percent since 1980. The National Low Income Housing Coalition reports that more than 50 percent of renters in Oregon are rent-burdened, spending more than 30 percent of their income on housing.[1]

The average Fair Market Rent for a two-bedroom apartment in Oregon is approximately $1,105, according to the Department of Housing and Urban Development. For such Fair Market Rent to be less than 30 percent of household income (i.e. for a household not to be rent-burdened), annual household income must be at least $44,214. As a result, there are only a handful of rural, sparsely populated counties in Oregon where a full-time minimum wage worker can afford a two-bedroom apartment at what HUD has determined to be the Fair Market Rent for those counties.[2]

The City of Portland has declared a housing emergency to combat escalating rent prices and homelessness. Likewise, Metro, the regional government in the Portland metropolitan area, has prioritized the funding of affordable housing. Voters in Portland, in 2016, and for Metro, on November 6, approved general obligation bond measures authorizing hundreds of millions of dollars of property-tax-supported funding for affordable housing. Given the passage of Measure 102, other communities across the state may consider similar general obligation bond measures to help address the affordable housing crisis.

How Affordable Housing Projects Are Financed

The vast majority of affordable housing projects are financed with a combination of funding sources, most prominently including federal Low Income Housing Tax Credits ("LIHTC"), and conventional taxable debt or tax-exempt obligations issued by a governmental entity (depending on the LIHTC program being utilized). The LIHTC program provides tax credits to developers who create affordable housing units. These credits, in turn, are sold to private investors to generate funding for the affordable housing project. The LIHTC program requires private ownership of such affordable housing.

Given rising land and construction costs for new affordable housing projects and the rising costs of acquiring and rehabilitating existing affordable housing projects, the funds provided by LIHTC and taxable or tax-exempt debt are rarely sufficient to finance an affordable housing project. These projects must also rely on various other sources to provide the necessary "gap" funding. Sources for gap funding include subordinate loans and grants provided by the State of Oregon, local government resources including urban renewal funds, and loans, grants and other funds provided by project sponsors, foundations and others.

The Benefits of Measure 102

Prior to the passage of Measure 102, Section 9 of Article XI of the Oregon Constitution prohibited local governments from partnering with private entities to construct projects funded by general obligation bonds for any project that was privately owned. This "lending-of-credit" prohibition contained in the Oregon Constitution, adopted in 1859, states: "No county, city, town or other municipal corporation, by vote of its citizens, or otherwise, shall become a stockholder in any joint company, corporation or association, whatever, or raise money for, or loan its credit to, or in aid of, any such company, corporation or association."

Measure 102 creates an affordable housing exception to the lending-of-credit prohibition. With voter approval of Measure 102, Oregon counties and cities can now ask their voters to approve property-tax-supported general obligations bonds to finance the construction and preservation of affordable housing without requiring governmental ownership of such housing, making LIHTC and other private capital available for such housing. Measure 102 requires each local government issuing general obligation bonds for affordable housing to define how a specific bond issue may be used and the type of affordable housing that can be financed. This measure-specific requirement will provide local governments with flexibility in determining the appropriate projects to support, ranging from deeply affordable projects for people earning much less than area median income, to workforce housing for people earning higher wages, possibly at or higher than area median income, all depending on specific community needs.

With the passage of Measure 102, the proceeds of general obligation bonds approved and issued to finance affordable housing can be used as a much-needed source of gap financing for affordable housing projects. Leveraging property-tax-supported funds with private LIHTC investment and debt will create and preserve many more affordable housing units than would be possible under a public ownership model and should operate to close the funding gap on projects that would not otherwise be feasible. Measure 102 provides local Oregon communities with an opportunity to increase the stock of affordable housing and become key players in addressing and finding solutions to Oregon's affordable housing crisis.

Orrick's Affordable Housing Finance Expertise

The Portland-based lawyers who work in Orrick, Herrington & Sutcliffe's public finance practice have unmatched experience in affordable housing finance, serving as Bond Counsel to state and local issuers of housing bonds in Oregon, and representing banks and underwriters who provide capital for affordable housing projects. We also regularly represent Oregon local governments and special districts in the issuance of voter-approved general obligation bonds, providing us with a unique combination of expertise in the implementation of Measure 102. Please feel free to contact the Orrick team if you want to learn more about Measure 102 and the possibilities it provides for financing affordable housing in your community.

[1] "Out of Reach 2018: Oregon," National Low Income Housing Coalition, available at https://nlihc.org/oor/oregon.

[2] Id.

Public Finance Alert | November.07.2018

Public-Private Partnerships Reaching Across Texas.

AUSTIN — Lacking a good source of high-speed internet, Bridgeport kids have resorted to hanging out at fast-food restaurants to get online and do homework.

That could change soon, thanks to a new cable that's coming to town under a public-private partnership between the small Wise County city and a private company.

"It's going to be kind of a next-generation kind of thing," said Kevin Lopez, a city council member in Bridgeport, about 45 miles northwest of Fort Worth. "Business or manufacturing weren't coming out: we didn't have the infrastructure in place."

It's a common cry around in rural and smaller Texas cities, where local governments may have limited ability to float bonds to cover infrastructure upgrades.

To meet demand, local entities, such as an economic development corporation, are turning to public-private partnerships, or P3s, to address a variety of needs.

"In addition to small city public-private partnerships for redevelopment, infrastructure and amenity projects, there are numerous examples of P3s that address broadband, water and wastewater facility operations and parking garages," Mary Scott Nabers, of Austin-based Strategic Partners, Inc., wrote recently. "New small city public-private partnerships are also emerging in the areas of smart lighting, solar energy, municipal facilities consolidation and green storm water infrastructure."

Cities can offer private partners grants, as well as "exclusive development rights…long-term leasing agreements…revenue-sharing opportunities," and tax increment financing "in which future gains in taxes from a redevelopment effort are used to repay bonds that provide a financial incentive to an investor," Nabers wrote.

Texas lawmakers last session rejected legislation authorizing the Texas Department of Transportation TxDOT to use P3s for a number of highway projects.

The move came after the state's first public-private toll road, a 41-mile highway connecting Austin and San Antonio, hit a series of high-profile problems including a lack of traffic, debt and low revenues, according to the San Antonio Express-News.

Still, P3s spread as public funding hits limits.

At fast-growing Texas A&M, there's a $368 million 3,400-bed P3 student-housing project.

To summarize a Bisnow report on the deal, a nonprofit builds on the university-owned land under a ground lease and the university owns the housing when the least ends.

A Texas' attorney general's opinion said that, "property held or dedicated for the support, maintenance, or benefit of an institution or institutions of higher education that is leased to students or employees of such institution or institutions is tax-exempt."

According to an the Real Estate Center at Texas A&M, the university "has used the P3 model almost exclusively in recent years to expand access to student housing."

Smaller Blinn College in Brenham, Texas, is also involved in a P3 project.

In Texarkana, Texas, the local housing authority is using a P3 renovate nearly 300 decades-old housing units.

The housing authority takes title to the properties from HUD, uses equity to obtain financing and outsources management.

“Subsidies are shrinking,” said Antonio Williams, executive director of Texarkana’s housing authority. “The housing authority ends up with equity.”

In Bridgeport, Fred Meyers, a board member of the local economic development corporation, is eagerly awaiting the arrival of cable and an improved internet connection .

He said the city and the economic development corporation each contributed about $10,000 to the project.

“We decided if we’re going to be competitive, we’ve got to be competitive in all areas,” Meyers said. “We decided as an economic development board (that) to attract business, we had to have better service.”

Once the private company finishes bringing cable from Decatur, about 10 miles to the east of Bridgeport, it wouldn’t take much to continue to smaller neighbors such as Chico or Paradise, each about five miles away, Meyers said.

“This affects everybody,” including the employees at his insurance agency, who Meyers said, talk about slow internet “day in and day out.”

He’s still waiting for the hook up at home, as is his wife, a retired school teacher.

It’s a big enough issue, Meyers said, “that my wife talks about it three days out of seven.”

By JOHN AUSTIN CNHI State Reporter jaustin@cnhi.com Oct 29, 2018

Ratings Agency Flags Warming Climate As Issue to Watch for Utah.

The state is currently in the depths of a drought.

Commenting on drought conditions now affecting much of Utah, the ratings agency Moody’s recently drew a connection between warming global temperatures and state credit quality.

Utah Gov. Gary Herbert, a Republican, in mid-October signed an executive order declaring a drought emergency. All of the state’s counties have experienced some level of drought in recent months, with those conditions persisting up through this week.

At the time Herbert issued the emergency order, 16 of Utah’s top 49 reservoirs were less than 20 percent full.

The year-long span between last October and this September was the driest on record in Utah, according to National Oceanic and Atmospheric Administration precipitation data.

Analysts with Moody’s Investors Service say the drought situation the state is now dealing with will not have an immediate effect on its credit quality. But they go on to say that it does highlight “Utah’s vulnerability to drought and its credit-negative exposure to drier conditions in the western US as global temperatures warm."

Local governments are in a similar boat, the article from Moody's says, noting "credit-positive economic and population trends are unlikely to be affected by the drought."

"However, local governments and utilities may face negative credit effects over a longer time frame if the drought continues unabated," the article adds.

The challenge going forward will be to balance limited water, much of which flows from mountain snowpack into the state's watersheds, with a growing state population and agriculture—currently the biggest water user in the state.

Population Growth, Pending Pipeline

Utah's population, now around 3 million, is expected to roughly double by around 2065, according to some estimates.

While the state's population is growing, irrigation for agriculture has accounted for about two-thirds of the state's water consumption in recent years. Moody's notes that farming makes up less than 1 percent of Utah's gross domestic product.

Utah is currently in the early stages of moving ahead with a project known as the Lake Powell Pipeline, which would transport water to communities in southern Utah from Lake Powell, a reservoir on the Colorado River, on the state's border with Arizona.

The project would involve about 140 miles of buried pipe and other infrastructure and has an estimated cost of $1.1 billion to $1.8 billion.

State legislation passed in 2006 outlines a framework where the state would provide funding and then local water districts would pay it back, but all of the details of that arrangement are still not finalized.

The project needs to move through a federal permitting review to proceed.

The Utah Rivers Council is among the groups opposed to the project. It argues that there are less expensive options available, that residents in the areas the pipeline would serve could conserve more water, and that the project would reduce river flows downstream.

Route Fifty

By Bill Lucia,
Senior Reporter

NOVEMBER 2, 2018

The Curious Case of Manassas Park, VA, and Suspension of its Credit Rating.

Following the financial crisis of 2008, the financial regulations were tightened and financial markets have been expected to adhere to new regulations that promoted financial transparency and accountability in the corporate and local government operations.

The federal oversight agencies, like the Securities and Exchange Commission (SEC), have also been quite diligent with their oversight efforts and ensuring proper adherence. Furthermore, when credit rating agencies perform their analysis to assess the ability of borrowers, either local governments or private entities, to repay their debt, they also assess the entity's compliance with financial regulations and compliance with its financial disclosures.

This rightful scrutiny of financial disclosures and transparency had recently been tested in the case of Manassas Park, VA, where S&P Global Ratings withdrew its AA- underlying rating on the city's outstanding general obligation debt due to its non-compliance with filing comprehensive annual financial report (CAFR).

In this article, we will take a closer look at the role of credit rating agencies in assessing and monitoring the financial health of U.S. local governments and things that led up to the rating suspension of Manassas Park, VA.

Continue reading.

municipalbonds.com

by Jayden Sangha

Oct 31, 2018

Houston's $100 Million Ballot-Box Fight Over Firefighter Raises.

- **First-term mayor freezes new hiring, warns of sweeping cuts**
- **Post Hurricane Harvey, City Hall still shrouded in plywood**

Little more than a year after Hurricane Harvey paralyzed Houston and wrecked thousands of homes, residents of the fourth-largest U.S. city will vote on a bitterly contested measure over firefighter pay that municipal leaders warn could trigger massive layoffs and service cuts.

In a Texas election season featuring an insurgent challenge to Republican U.S. Senator Ted Cruz by Democrat Beto O'Rourke, Houston residents are riveted on Proposition B, the Nov. 6 ballot measure that would bring firefighter pay to parity with police officers. At stake, according to Mayor Sylvester Turner, are hard-won public pension reforms that stabilized the city's long-term financial outlook in the aftermath of last year's devastating hurricane.

Continue reading.

Bloomberg Politics

By Joe Carroll

October 31, 2018, 1:00 AM PDT

Baltimore Voters Test Resistance to Privatization.

- **It may become biggest U.S. city to ban sale of water utility**

- **‘All sides are watching what’s going to happen in Baltimore’**

Baltimore may push back against privatization.

Maryland’s largest city on Tuesday will vote on a ballot measure that would bar it from selling off the government-owned water and sewer system, a step other financially struggling cities have explored to raise cash. If approved, Baltimore would be the biggest American municipality to ensure that its system remain in public hands, bucking a movement by companies including America Water Works Co. to run such utilities.

“This would be the first major city to basically say were not in the market for this,” said Michael Klein, attorney at Cozen O’Connor who specializes in water transactions. “It’s fair to say that a lot of different groups on all sides are watching what’s going to happen in Baltimore.”

The election in the 612,000-resident city comes after President Donald Trump unsuccessfully pushed for a broad expansion of private investment in America’s infrastructure, seeing it as a way to reduce the federal cost of improving roads, bridges and other public works. Some cities, including Allentown, Pennsylvania, have relinquished control of utilities in order to raise needed cash, and Jacksonville, Florida, has weighed whether to privatize its electric and water system.

But privatization plans have proven politically contentious and drawn push back from residents. Stockton, California, which collapsed into bankruptcy after the recession, cancelled after just four years a $600 million, 20-year deal struck in 2003 for its water and sewage systems. In Bayonne, New Jersey, water rates have risen about 28 percent since a private equity firm and water company took control in 2012.

Aging Utilities

The private capital can be a boon for cities struggling to find money to invest in aging utilities. Nationwide, the U.S. needs about $470 billion over the next 20 years for its water infrastructure alone, according to the Environmental Protection Agency. In Baltimore, where nearly a quarter of the residents live below the poverty line, the century-old system has entered into a consent degree with the EPA that will require it to spend an estimated $1.6 billion in a little over a decade to stem pollution caused by its wastewater system.

Should the measure pass, Baltimore would need to find the money on its own, potentially through higher rates. Still, supporters of the privatization ban say it will protect residents because a corporation would need to charge even more to turn a profit on its investment. That argument has proven successful. Northampton, Massachusetts, in 2016 approved a measure that made it illegal for the city council to sell the water system. In 2010, Trenton, New Jersey, struck down such a sale at the polls by a nearly four-to-one margin.

“When you talk about a private company running a utility the only way it is going to turn a profit, which is what they’re concerned with, is reducing services or to jack up prices,” said Lester Davis, deputy chief of staff for Baltimore city council president Jack Young. “This is a public utility that deals with an essential element of life. There’s no amount of cost savings or consideration that will lead to elected leaders to gamble with that.”

He said the ballot measure was proposed after a spate of discussion about privatizing Baltimore’s water system.

“There was chatter around it that needed to be tamped down,” he said. “It was never going to be acceptable to privatize. By making it illegal, we could save a lot of time and just shut the door completely."

Bloomberg Politics

By Danielle Moran

November 2, 2018, 7:25 AM PDT

Puerto Rico Notches a Long-Awaited Win.

It's been more than three years since the Puerto Rican government acknowledged it was on the verge of economic collapse.

Since then, the island's journey back to fiscal health has been a trying one, defined by a lengthy restructuring process, contentious litigation and the devastating impact of Hurricane Maria. Finally, however, the prognosis is improving.

This month marks a major step forward on Puerto Rico's path to restructuring its massive public debt load. The island's oversight board has filed a formal plan of adjustment in federal court to restructure roughly $17.5 billion in bonds issued by the Puerto Rico Sales Tax Financing Corporation (COFINA). With any luck, it will be confirmed by early next year.

The COFINA plan reflects the spirit of compromise that Congress envisioned when it passed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) in 2016. Its terms stem from a settlement agreement reached by the commonwealth and COFINA parties that were previously squaring off in court.

If litigation had not given way to a negotiated resolution, it could have proved devastating. A likely ruling in favor of the COFINA camp would have cost Puerto Rico billions of dollars in debt relief and new capital.

On the other hand, an unforeseen victory for the commonwealth parties would have eroded confidence in constitutionally-protected property rights and rattled the entire municipal finance market.

With this context in mind, it is clear PROMESA worked as intended by facilitating cooperation and consensus. The proof is in the COFINA plan's numbers.

The restructuring is slated to significantly cut the principal amount of outstanding debt by $7 billion and reduce future interest payments to bondholders. The commonwealth will also recoup more than 46 percent of the sales tax revenues that previously belonged to COFINA, resulting in hundreds of millions of dollars per year going back to the local government.

Along with anticipated reforms intended to entice private-sector investment, increasing the commonwealth's share of annual sales tax revenues should be a legitimate growth catalyst. The local government will have much more financial flexibility to invest in infrastructure, improve essential services and pay general obligation debt.

Another key component of this compromise is that it balances equitable recoveries for local bondholders while sending a signal to market participants about Puerto Rico's eventual ability to re-access capital markets. This is critical given that COFINA is the most widely held bond issuance among on-island retail investors and retirees.

Fair recovery levels, along with the resumption of coupon payments, can help stem outmigration and limit overdependence on the government.

But not everyone is on board. A handful of progressive pundits, including one former Treasury Department official involved in PROMESA's development, are now pointing to highly-pessimistic financial forecasts to poke holes in the COFINA plan. However, their skepticism and underestimation of our fellow Americans in Puerto Rico is unjustified.

Data shows the commonwealth has been running considerable budgetary surpluses in recent years, ranging from $1.6 billion in 2015 to $2.9 billion in 2018. The annual surplus available to pay creditors could easily rise to $4 billion or more by 2020 if reforms sought by the oversight board are expeditiously implemented.

This underscores that the COFINA restructuring, which will require $420 million per year in the near-term, is a very feasible deal.

Even when the escalated payment rate of more than $900 million per year is reached in 2041, the commonwealth should have ample resources to pay the restructured debt while comfortably funding other public initiatives and obligations.

Of course, this deal is only one facet of Puerto Rico's broader recovery. The local government must continue pursuing equitable restructuring agreements and deliver on important reforms called for in the oversight board's fiscal plan. Building on the momentum achieved this month is critical to restoring the island to full financial health.

THE HILL

BY FORMER SEN. JUDD GREGG (R-N.H.) — 10/29/18 05:30 PM EDT

Former Sen. Judd Gregg (R-N.H.) previously served as chairman and ranking member of the Senate Budget Committee. He is also the former governor of New Hampshire. He has been an advisor to the COFINA Senior Bondholders Ad Hoc Group.

Wells Fargo Public Finance Snags Healthcare Team.

Wells Fargo Securities, the investment banking and capital markets business of Wells Fargo & Company, has announced the following new hires to its Government & Institutional Banking Division: Patrick McCarthy, Moira Baldwin and Ian Spier. Each join from Jefferies LLC and will specialize in Wells Fargo's healthcare division within Public Finance.

"I'm pleased to welcome a trio of the industry's top talent to our growing team," said Stratford Shields, head of Wells Fargo Securities' public finance. "As our clients grow and consolidate in the rapidly changing not-for-profit healthcare business, we are now able to provide both financing and strategic advisory services to help them achieve their objectives."

Patrick McCarthy, a 28-year public finance industry veteran, will join the firm as managing director and co-head of Not-for-Profit Healthcare in early 2019. He previously headed Jefferies' not-for-profit healthcare group. His predecessor firms include Goldman Sachs, where he served as managing director, and Morgan Stanley. A graduate of Lake Forest College, McCarthy will be based in New York. He will report to Shields.

Moira Baldwin and Ian Spier recently joined the firm as directors. They previously served as senior vice presidents in healthcare under the management of McCarthy at Jefferies. Baldwin, whose advanced expertise includes children's hospitals and capital market solutions, attended Penn State Smeal College of Business, where she earned an MBA. She worked at Goldman Sachs prior to Jefferies. Spier, a graduate of Wake Forest University, has extensive experience in M&A and capital market transactions on behalf of not-for-profit healthcare systems. He worked at Bank of America prior to Jefferies. Both Baldwin and Spier will be based in New York and report to McCarthy and sector co-head Melissa Bastan.

"I'm thrilled to broaden our team's scope of services for our clients," said Bastan. "Patrick, Moira and Ian are proven leaders who will help our clients prepare for opportunities ahead."

October 31, 2018

[Miami Taxpayers Have to Dip Into Rainy Day Fund to Pay Legal Settlements with Unions.]

Miami's government could face a tough financial future after it has been forced to dip into its reserves to pay for two costly legal settlements with its police and fire unions.

The city has settled pension and salary disputes with the unions to the tune of $53.5 million, resolving a legal battle stemming from austerity measures taken during the Great Recession. More than half of the money will come from the city's reserves, which will dip about $10 million below the city's self-imposed threshold for maintaining a healthy rainy day fund.

The decrease could impact the city's ability to borrow money for public projects. Bond rating agencies look at reserve balances when assigning ratings to cities. If Miami's rating were lowered, it would mean the city would have to deal with higher interest rates when paying off municipal bonds.

Coupled with conservative financial projections that assume Florida voters will approve a state constitutional amendment that would expand the homestead exemption and reduce property tax revenue, city administrators say they will have to tighten their belts because of a potential $20 million deficit in the next fiscal cycle.

"We have to find ways to increase revenue and cut expenses," said City Manager Emilio Gonzalez.

While the city has to pay out hefty legal settlements, it could have been worse. A city fiscal analysis shows the city could have been on the hook for $486,000,000 in back pay and pensions for the city's police officers and firefighters. Settlements with each union approved by commissioners this month total $53.5 million, which includes about $37 million in upfront payments that will diminish the reserves. The commission approved the agreements and new labor contracts with the firefighters union Oct. 11 and the police union at Thursday's commission meeting.

The contracts passed with little public discussion, though on Thursday, Commissioner Joe Carollo commented on the possible money issues down the road.

“If we don’t start cutting back now and finding new revenue, we’re going to be in big trouble in the next fiscal cycle,” he said.

“I agree,” said Christopher Rose, the city’s budget director.

Rose told the Miami Herald city departments have already begun meeting to discuss ways to save more and spend less. The city’s finance staff anticipates costs will increase and property tax revenue growth will slow.

“We’re being very cautious heading into the future,” he said.

One measure is already in motion. Commissioners are considering increasing parking rates across the city for nonresidents, a change that could bring in an estimated $6 million in revenue. After initial approval in September, the rate hike needs one more vote to become law.

The union lawsuits were precipitated by the actions taken the last time Miami faced a serious fiscal crisis.

In 2010, the city declared a financial emergency and invoked a state law that allowed administrators to force open union contracts and unilaterally impose cuts — the city cut salaries by as much as 12 percent and capped pensions. The controversial maneuver, led by former Mayor Tomás Regalado, saved the city about $100 million in labor costs and helped it avoid a financial meltdown as it faced a securities fraud investigation and flirted with bankruptcy. But the unilateral cuts also spurred lawsuits from the unions, who ultimately won in the Florida Supreme Court.

Instead of facing a nearly half-billion-dollar liability, the city hashed out deals with each bargaining group to settle the litigation and agree on new contracts.

“I believe we reached a fair deal with the city,” said Freddy Delgado, president of the Miami Association of Firefighters. “This is a new beginning with a new administration that values its employees. Our agreement brings stability to the city’s finances and we will continue to serve the citizens of Miami with excellence.”

After the upfront payments, which will occur after the legal formalities, each group will receive annual damages payments of between $2 million and $3 million over the next several years. The city budget, which went into effect Oct. 1, already factored in the pay increases under the new police and fire contracts. Firefighters are getting a 5 percent raise across the board. Police are receiving 3 percent.

THE MIAMI HERALD

BY JOEY FLECHAS

October 25, 2018 09:14 PM

Fitch Ratings: North Carolina Well-Positioned to Absorb Cost of Hurricane Damage

Fitch Ratings-New York-24 October 2018: Fitch Ratings believes the state of North Carolina is well-positioned to absorb the costs and address the impact of Hurricane Florence, which the state estimates inflicted more than $12 billion in direct and indirect damage. North Carolina's strong operating framework and high level of financial flexibility should allow it to address recovery costs, assist local government, citizens, and businesses, and begin to develop plans for future storm resilience in the hurricane's aftermath.

North Carolina's initial recovery plan from Hurricane Florence relies on a significant draw on the state's budget reserve or rainy day fund, utilizing $756 million of the approximately $2 billion held in the fund. The sizeable remaining balance in the rainy day fund represents 5.5% of expected fiscal 2019 revenues. The appropriation from the rainy day fund to the new Hurricane Florence Disaster Recovery fund was incorporated in recently enacted legislation designed to address immediate recovery needs as well as longer term resiliency of the state to future storms. The legislation allocates $849.4 million to recovery activities out of $1.5 billion requested by the governor, most of which will come from the rainy day fund. The state does not anticipate a current need to reduce spending in other areas to address the costs of recovery, but does expect additional funding needs in future years.

Fitch expects the recovery costs from the storm will be shared between the state, private insurers, and significantly, the federal government through FEMA and the National Flood Insurance Program (NFIP). The state currently estimates receiving $2.3 billion in federal aid and is requesting an additional $3.4 billion. This, in combination with expected private funding, leaves an estimated $3.7 billion in unmet needs. The $849.4 million appropriation allows the state to begin addressing this need; however, the state will need to identify additional sources of funding to address the balance. One area of significant unmet need will be in the state's agricultural sector where the state currently estimates there is over $2.3 billion in direct and indirect damage, of which less than $200 million will be covered by either federal programs or private insurance. Almost half of the state's initial spending will address immediate needs in housing and agriculture, including $65 million FEMA matching funds for housing and public assistance.

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As Red Sox Seek World Series Win, City Makes a Bond Bet on Team.

- **Massachusetts city is selling bonds for farm-team stadium**
- **Stadium will anchor a $240 million development project**

The Boston Red Sox need to win two more games against the Los Angeles Dodgers to become 2018 World Series champions. But Worcester, Massachusetts, is already betting on the club's future.

The city, about 50 miles (80 kilometers) west of Boston's Fenway Park, is selling $30 million of municipal bonds next week to begin construction of a new stadium for the Red Sox's triple-A minor league affiliate. The farm team is moving from Pawtucket, Rhode Island, their home of nearly 50 years, following a protracted bidding war between the two cities.

Minor-league baseball stadiums have evolved into smaller versions of their big league counterparts, complete with luxury boxes, kids' attractions and nearby commercial development. And municipalities have jumped at the chance to host the teams. Fayetteville, North Carolina, sold $50 million in municipal bonds earlier this year to fund a stadium for a Houston Astros's affiliate, for example. Wichita, Kansas, is selling $42 million in sales-tax debt next week to fund a stadium expected to house the Miami Marlins triple-A team.

Worcester's bonds will kick off funding for the design, construction and equipment of the city-owned ballpark. Known as Polar Park, the stadium will seat about 10,000 fans and is expected to open for the start of the 2021 season. The city expects to sell another $73 million of debt for the project.

The ballpark will anchor a $240 million redevelopment effort that will include $90 million of urban apartments, a 150-room hotel, a second boutique hotel, and 65,000 square feet of retail and restaurant space.

The new issue bonds will be secured by Worcester's full faith and credit and a limited tax on city residents, giving the bonds an AA grade from Fitch Ratings. They city expects revenue from the new development district to pay the bonds, while the team has agreed to make lease payments to the city in "amounts sufficient to meet the city's obligations," according to the bond documents.

Bloomberg Markets

By Danielle Moran

October 26, 2018, 10:55 AM PDT

California Investors Fear Return to Deficits as Governor Jerry Brown Departs.

- **Bond buyers want frontrunner Newsom to show fiscal prudency**
- **Democrat would take charge as prospect of recession looms**

The fiscal contrast between California Governor Jerry Brown and Gavin Newsom, the frontrunner to replace him, may best be shown through a decades-old program to fight blight.

Facing a $25 billion budget deficit, Brown entered office in 2011 with a cost-cutting plan that included killing hundreds of redevelopment agencies. Eight years later, Newsom is poised to inherit an almost $9 billion surplus. One of his campaign planks: bring the agencies back.

That kind of divergence is making bond investors in boom-and-bust California nervous. Newsom, a Democrat who is seen as coasting to victory over a Republican businessman, would have to balance campaign promises against the threat of a return to massive deficits.

"The fear is, will Gavin Newsom be able to enforce the discipline that Brown had?" said Eric

Friedland, director of municipal research at Lord Abbett & Co., which oversees about $20 billion in munis. Loosening the budget would "be problematic, as we're probably going to be facing an economic slowdown."

There are 36 state gubernatorial elections on Nov. 6, and while California's race isn't exactly a nailbiter, it's viewed as one of the most important. The state is the most populous in the U.S., boasts the fifth-largest economy in the world and is the country's largest issuer of municipal bonds — with $73 billion in general-obligation bonds outstanding as of the beginning of the month.

Newsom, currently the lieutenant governor, is up against John Cox, who has never held political office. Cox has trailed in all independent polls and faces an uphill battle in California, which hasn't elected a Republican to statewide office since 2006.

Wealth Disparities

Newsom, 51, has cited his previous experience as San Francisco's mayor to support his pledge of fiscal responsibility. In a debate with Cox on public radio station KQED earlier this month, he said that his biggest concern is "addressing the income and wealth disparities in the state, in a way that doesn't begrudge other people's success but addresses these issues in a systemic way." He declined to be interviewed for this story.

For investors, the question is just how long the market for California bonds will remain robust amid the leadership turnover and a potential recession. Wealthy Californians have clamored to own municipals as a tax shelter after last year's federal tax overhaul curbed some of their deductions. That's pushed yields on some state securities to levels close to those for top-rated bonds.

"Over time, as the credit begins to deteriorate, it could have some impact," Friedland said. "Right now, California bonds are very, very rich."

When Brown took office in 2011 — he also served two terms after Ronald Reagan was governor — California was the lowest-rated U.S. state and sparking grim comparisons to debt-ridden Greece. He presented what he called a "tough budget for tough times." The elimination of redevelopment agencies, which had reversed blight but also embarked on dubious ventures such as golf courses, shifted property-tax revenue to schools and other purposes.

The state's fiscal turnaround has been striking, bolstered by Brown's spending cuts and voter approval of higher taxes that were billed as temporary but later extended through 2030. Fueled by Silicon Valley's technology industry and a real estate revival, California's economy has outpaced the nation's since 2012.

Tax Reliance

The higher personal income tax rates for wealthy residents, however, have made the budget even more susceptible to fiscal downturns. When markets tumble, so do capital gains — and the state's revenue.

Although Brown has padded the rainy-day fund to about $13.8 billion — the constitutional maximum approved by voters — it won't be enough to completely absorb the effects of a moderate economic downturn, according to the Legislative Analyst's Office. And after the second-longest expansion on record, some economists are expecting a recession by as soon as next year.

The next governor "stands a chance that four years from now, the state may be in a worse off position than what he's coming into," said Carol Flynn, co-head of the municipal bond department at

DWS, which manages about $18 billion in munis.

Meanwhile, California suffers from more deep-seated problems. It has the highest poverty rate of any state — 19 percent — exacerbated by a shortage of affordable housing.

In response, Newsom is campaigning on priorities including access to preschool for every child and broader family leave policies. While use of the rainy-day fund is strictly governed, he could tap $2 billion in other savings for his plans.

To boost affordable housing, he would expand a version of redevelopment agencies from their current limited use that would enable more building. Cities could set up entities that tap taxes generated by new development for infrastructure projects and issue bonds. "We have specific goals" for these districts, Newsom said during his debate with Cox.

Newsom's ambitions for future office may dictate how he governs, said Ksenia Koban, a municipal-credit analyst at Payden & Rygel Investment Management. Eighty-year-old Brown didn't seem to care about making people angry by squirreling away money, she said.

"I don't know if Newsom would have that degree of comfort," she said.

Bloomberg Markets

By Romy Varghese

October 26, 2018, 9:28 AM PDT

[$453M Mixed-Use P3 Project Kicks Off in Los Angeles.]

Dive Brief:

- Real estate development and management firm Trammell Crow Co. announced that construction has begun on a $453 million Los Angeles mixed-use project under a public-private partnership that will deliver to the city's Koreatown district a transit-oriented development with housing, retail office and community spaces.
- Trammell Crow and its partners — subsidiary High Street Residential; Los Angeles County; Public Facilities Group and Meta Housing Corp. — will build, as part of the Vermont Corridor project, the three-phase development within one block of two major subway lines. The first phase, financed by tax-exempt bonds according to Commercial Executive, will see the construction of a 21-story, 468,000-square-foot Gensler-designed office tower with 7,500 square feet of ground-floor retail and a peer resource center. Hathaway Dinwiddie Construction Co., based in San Francisco, has been hired as the general contractor, and completion is scheduled for the end of 2021. The county plans on moving its Department of Mental Health and Workforce Development, Aging and Community Services offices into the building upon completion.
- The second phase of the development, a 72-unit affordable senior housing complex designed by Y&M Architects, is slated to begin in mid-2019. That project will also feature a 13,000-square-foot community center. The last phase, which is scheduled to start construction in late 2021, will see the conversion of an existing 12-story office building into a 172-unit multifamily complex. The Steinberg Hart-designed project will also include a rooftop amenity deck and 4,700 square feet of ground-floor retail.

Dive Insight:

When it comes to P3s, what often comes to mind are civil infrastructure projects such as highways, bridges and toll roads. While still not the norm, some state agencies have turned over the design, finance, construction and operations of these assets to the private sector while still retaining ownership. However, the P3 model can be used for any public project, like the Vermont Corridor project.

Proponents of the P3 model claim that private industry can deliver a building, road or most anything else more efficiently, allowing the public sector to take advantage of its design, construction and operations expertise, as well as access to financing. One of the major benefits of the structure is that it allows the public entity to spread out payments over a longer period of time, leaving enough cash to finance other projects. Some critics maintain that P3s don't provide long-term financial value because private partners pay more to borrow money and include profit in their pricing.

For contractors that have the opportunity to participate in a P3 for the first time, the [Associated General Contractors of America] said it's important that construction companies consider a wide range of issues, such as whether their role is short-term or long-term, what kind of financial risk and obligations the deal entails, and what level of community outreach will be required.

Construction Dive

by Kim Slowey

Oct. 23, 2018

S&P When The Cycle Turns: Are California's Historically High Budget Reserves Also A Bare Minimum?

Eight years of strong budget management simultaneous with an expanding economy, booming stock market, and (for six years) tax increases on its high-income taxpayers have dramatically strengthened California's budget position. Compared with most states, California has assembled one of the strongest fiscal recoveries of the post-recession period.

Continue Reading

Oct. 23, 2018

The Late Great State of Illinois.

Political dysfunction as far as the eye can see.

Payson, Ill.

As the sun rose, the first frost of the season flashed silver across the mowed fields of Adams County, Illinois, and the same small group of regulars gathered at the Fast Stop gas station in Payson. They get their coffee here most mornings before commencing the day's business. (One definition of progress: Americans used to worry about getting gas from a coffee shop; now we think nothing of getting coffee from a gas station.) Most of the guys are retired or close to it—firefighters, farmers, machinists. All but a couple of them are Republicans, and when they talk politics, as a visitor from out of town asked them to do one morning not long ago, they speak with an air of weary resignation. Like most people who've bothered to pay attention, they're pretty certain what will happen on November 6, when the state decides who its governor will be for the next four years—the incumbent Republican, Bruce Rauner, or the Democrat challenger, J. B. Pritzker.

"We were just debating whether there's such a thing as a conservative Democrat in Illinois anymore," one of the regulars told the visitor. "We decided there are not."

Another regular agreed. "Just about everybody around here owns a gun," he said. "And nowadays if you own a gun in Illinois, you're a Republican."

"Basically," said a third, "we're never going to win another election statewide. The numbers just don't add up. Which means not much is going to change."

Continue reading.

The Weekly Standard

by Andrew Ferguson

October 29, 2018

[UBS Loses $19M Arbitration Case Over Puerto Rico Bonds.]

A FINRA arbitration panel ordered UBS to pay a client nearly $19 million in the latest case stemming from the performance of the firm's closed-end funds of Puerto Rican muni bonds.

Luis Moyett accused the firm of breach of contract, negligence and violations of Puerto Rican securities laws among other misconduct, according to a copy of the arbitration award.

His claims mirror those of other UBS clients who purchased the firm's closed-end funds of Puerto Rican municipal bonds, which took a beating when prices tumbled in 2013. Burned by the experience and losses, clients have filed hundreds of arbitration claims against UBS.

In its second quarter earnings report, UBS said it faced claims with aggregate damages of $2.6 billion. So far the firm has resolved more than half through settlements, arbitration or withdrawal of the claims. It did not disclose how much it has paid out so far.

Separately, the firm reached settlements with SEC and FINRA totaling more than $33 million.

In Moyett's case, two other clients, Joseph and Carmen Quijano, were part of the initial arbitration proceedings. But the Quijanos reached a separate settlement with UBS in November 2017, details of which were not publicly available.

Peter Mougey, an attorney representing the Quijanos and Moyett, says he cannot talk about the Quijanos settlement because of its confidential nature.

At the start of the arbitration in 2015, the three claimants collectively sought $21.8 million in damages, according to FINRA arbitration records. It is not clear from publicly available arbitration records how that figure broke down per client.

Ex-Morgan Stanley advisor claims ‘trashing’ reputations is ‘common practice’ for firm
After the Quijanos’ settlement, Moyett pursued the arbitration through 35 hearings in July and August. Last week, the panel of three arbitrators issued a ruling in his favor. They granted him $14.9 million in compensatory damages plus 5% post-award interest; $3.8 million in attorneys’ fees; $215,000 in costs; and $750 to reimburse Moyett for the arbitration filing fee.

Mougey says the award has helped make his client whole and heralded the arbitrators’ conduct during the arbitration.

“This was a grueling job, often 13-hour days of testimony. There were over 300 exhibits, some hundreds of pages long. We think the panel got it perfect and I was very impressed with the long days they put in and their attention to detail,” he says.

Mougey, an attorney at Pensacola, Florida, law firm Levin Papantonio, says he’s represented about 300 former UBS clients. This was the largest award one of his client’s has received.

The arbitrators also ordered UBS to pay $56,700 of the $59,400 cost of the hearings.

The panel did not, however, grant Moyett’s request for punitive damages, a fact noted by UBS.

“While we respectfully disagree with this decision, it is important to note that the claimants were awarded less than they sought, perhaps because for over 20 years Puerto Rico bonds provided steady and substantial returns also coupled with extraordinary tax advantages available only to Puerto Rico residents,” the firm said in a statement.

The Bond Buyer

By Andrew Welsch

October 22 2018, 3:18pm EDT

Puerto Rico Bonds Soar, Pointing to Hope for Restructuring.

A deal would clear one of the largest obstacles to emergence from the bankruptcy court protection

Puerto Rico bond prices soared Monday after the federal oversight board that runs the U.S. territory’s finances released a revised fiscal plan that raises expectations for disaster funding and economic growth.

Prices of Puerto Rico’s benchmark general obligation bond due 2035 jumped 10% to about 60 cents on the dollar, according to data from the Municipal Securities Rulemaking Board, reflecting higher expectations for bondholder recoveries.

Improving economic expectations have set the stage for a potential compromise with the hedge funds that hold much of the island’s $13 billion general obligation, or GO, bonds and have formed a unified group to negotiate a restructuring with the government and oversight board. A deal would clear one of the largest obstacles to Puerto Rico’s emergence from the bankruptcy court protection it entered in May 2017.

Continue reading.

The Wall Street Journal

By Matt Wirz

Updated Oct. 22, 2018 5:47 p.m. ET

Puerto Rico Fiscal Plan May Expect U.S. Aid to Come Too Quickly.

- **Expected influx creating 'irrational exuberance,' expert says**
- **Only 60 percent of FEMA approved aid has yet to be released**

Puerto Rico's latest fiscal plan anticipates a temporary return to economic growth and a potential $30 billion surplus over the next 15 years thanks in part to billions of expected federal disaster aid that may help lift the bankrupt island from a 12-year recession.

But that may be too optimistic, according to the Center for a New Economy, a non-partisan think tank that analyzes Puerto Rico's debt and finances. While the influx of an anticipated $46 billion of federal public disaster aid will provide a jolt to the economy, it's still unclear if those dollars will arrive fast enough to offset the impact of other austerity measures, such as cuts to municipal aid and the University of Puerto Rico, according to Mike Soto-Class, president and co-founder of CNE.

"There is what I think is an irrational exuberance right now in this money," Soto-Class said about the federal disaster aid funds during a press conference Wednesday with reporters in the organization's new offices in D.C. "Everybody in Puerto Rico thinks that this is going to be kind of our saving grace and billions are already pouring in and even more will come and everything's going to be great. But that is not necessarily so."

The federal relief funds and private insurance money expected to come into the island since last year's hurricane has led its federal financial overseers to offer a more optimistic outlook for the bankrupt government's financial turnaround.

The recovery plan it approved on Tuesday projects that the government will have a surplus of $17 billion through 2023, a stark reversal from the large shortfalls projected soon after the storm. That's pushed up the price of Puerto Rico debt as bondholders speculate they may recover more of their investment than previously expected.

CNE's concern stems from the slow distribution of FEMA cash. Of the nearly $15 billion that FEMA has directed toward Hurricane Maria relief, only $8.9 billion, or 60 percent, has been spent as of Sept. 30, according to FEMA's most recent monthly report. That compares with 80 percent and 75 percent of disaster relief money spent, through September, for Hurricane Harvey, which flooded Houston in August 2017, and Hurricane Irma, which affected Puerto Rico and the U.S. Virgin Islands.

The latest fiscal plan, which a federal board that oversees Puerto Rico's finances approved Tuesday, doesn't take into account the time lag associated with these federal funds, Sergio Marxuach, CNE's public policy director, said during the meeting with reporters. FEMA has warned that it can take a year and a half for funds to be paid out to contractors, according to Marxuach.

"If you obligate money to fix a road today and it takes you 18 months to actually disperse the money, that has an economic impact because that money that could be flowing now will be flowing later in the process," Marxuach said.

Puerto Rico is using an alternative procedure to process all of the FEMA public relief money, which accounts for the slower disbursement, according to CNE. FEMA is allowing the commonwealth to waive its upfront cost share. That saves Puerto Rico money now but if projects run over budget, the island is obligated to cover those future costs.

The slower pace puts optimistic economic projections at risk, Marxuach and Soto-Class both said. Drivers still contend with dangerous intersections without traffic lights and dark, unlit streets. Some water pumps and cell-phone towers continue to rely on generators and people have stopped maintaining their lawns.

"If you see debris out and the grass isn't cut and everything looks terrible, that just really weighs on you as a person and the effects of that remain to be seen," Soto-Class said. "Those are going to be long-term effects."

Bloomberg Markets

By Michelle Kaske

October 25, 2018, 8:26 AM PDT

Puerto Rico Bonds Jump as Board Sees More Ability to Pay.

- **Federal oversight board projects surpluses through 2023**
- **Projections support case for consensual deal, BTIG says**

Puerto Rico bonds rallied Monday after the commonwealth's federal oversight board published an updated fiscal plan that apparently acknowledged a greater ability to repay its debt than had been previously estimated.

The latest projections suggest the island would have surpluses after contractual debt service through fiscal 2023, after accounting for a program of planned reforms, whereas previous plans had projected deficits. Without the reforms, the island is still projected to run deficits from fiscal 2021 onward, as federal disaster aid runs out.

Puerto Rico general-obligation debt with an 8 percent coupon and maturing in 2035 traded at an average of 59.3 cents on the dollar on Monday at 1 p.m., up more than 8 percent from its average of 54.6 cents on the dollar on Oct. 18. The bonds are the most actively-traded securities in the municipal market on Monday.

"In other words, Puerto Rico in the draft Fiscal Plan acknowledges that it will have the capacity required to pay its debts," said Mark Palmer, an analyst covering municipal bond insurers at BTIG.

He also said that the projections "support the case for a consensual deal with creditors and insurers of its general obligation (GO) bonds at a recovery level well above the level at which the bonds currently trade."

Puerto Rico general-obligation debt with a 5 percent coupon and maturing in 2041 traded at an average of 58.9 cents on the dollar on Monday afternoon, up more than 14 percent from its average of 51.4 cents on the dollar on Oct. 19. The bonds are the most actively-traded securities in the municipal market on Monday.

A footnote in the plan makes clear that the surplus is "for illustrative purposes only" and doesn't represent expected future payments on restructured debt, but the bond market nevertheless took it as an improvement over past plans.

Still, Puerto Rico has a tough road ahead. The new plan calls for the commonwealth to trim financial support to municipalities and the University of Puerto Rico. It also says the island's government should cut the number of agencies to no more than 35 from the current 114.

"Overall, this is just a plan that lays out a scenario if Puerto Rico were to implement significant reforms and cost cutting measures," said Dora Lee, vice president at Belle Haven Investments, which oversees $7.5 billion in municipal debt. "So far the Puerto Rico government has not shown a willingness to do that."

Bloomberg Markets

By Jonathan Levin and Amanda Albright

October 22, 2018, 11:04 AM PDT

— With assistance by Yalixa Rivera

Threat of Inheriting Debt Puts New Spin on Georgia's Cityhood Movement.

Communities hoping to create their own cities by tearing away from established municipalities may find the price tag too high following a federal judge's recent decision, political experts and residents watching the Eagle's Landing effort say.

U.S. District Court Judge Leigh Martin May affirmed last week that if Eagle's Landing's is successful in its attempt to become a city by de-annexing and taking half of Stockbridge, it also will inherit millions in municipal bond debt and other obligations contractually tied to the territory.

"It should change the political, economic and financial calculation" of any community trying to copy the Eagle's Landing, said Bart Hildreth, a professor at Georgia State University and expert on municipal bonds. "What it says is that there is an exit price from any kind of arrangement."

How Eagle's Landing's secession plays out in Henry County is important to metro Atlanta because many believe other wealthier communities could use it as a template to break away from their home cities. For example, Buckhead could bolt from Atlanta.

If voters approve on Nov. 6 to take half of Stockbridge to create a new city, Eagle's Landing would be overturning decades of precedent on how towns are formed, which is usually done by annexing unincorporated parts of a county.

Sandy Springs led the incorporation movement in 2005 when residents there overwhelmingly voted to chart their own path by becoming a city. What followed was a number of other incorporations, including South Fulton, Stonecrest, Milton, Brookhaven and Peachtree Corners.

Backers of Eagle’s Landing cityhood say they want to seperate to improve services such as roads and libraries and to spur economic development. Stockbridge leaders argue that would better accomplished as one community.

The Georgia Supreme Court and Judge May last week both declined to cancel the vote in court challenges brought by Stockbridge, which has called the referendum unconstitutional.

The judge made the ruling after Stockbridge and Capital Once Public Funding, the municipal bonding arm of banking giant Capital One, sought to stop the ballot referendum because they argued that the state had failed to create a mechanism for Eagle’s Landing to pay a share of more than $17 million in municipal bonds owed by Stockbridge.

Joshua Meddaugh, an associate professor of political science at Clayton State University, said knowing that municipal bond and other debt may follow residents will be a deterrent for similar incorporation movements.

But he thinks Eagle’s Landing residents who are seeking cityhood might think it’s a price worth playing.

“If they are benefiting from work that has already happened and if the money is going to be split in a way that makes sense … they may not object,” he said, especially for residents in unincorporated Henry County who might get sanitation and other services that they don’t currently have.

Vikki Consiglio, a leader in the fight for cityhood, said Eagle’s Landing was always going to have some role in paying the bond debt and that the judge’s affirmation of that has been overblown. She said how that debt will be handled and what the potential new city would pay will be negotiated with Stockbridge if Eagle’s Landing becomes a city.

James Carmichael, a resident of Eagle’s Landing who plans to vote against the measure, said he thinks backers of cityhood have been disingenuous in how it would impact the community. He said he believes that Eagle’s Landing would have to impose a city tax to pay for the money it would owe Stockbridge and that had this issue not been fought in court, residents would have never known it was within the realm of possibilities.

“It’s a game changer,” he said of the impact the debt could have on the vote.

Charles Marshall, who supports cityhood, said the debt does not change his mind, but he thinks it could have an impact on anyone who is wavering or has been suspicious of the motives of cityhood supporters. Because it’s unclear how the debt would be paid, he is taking a wait-and-see approach on cityhood.

“My hope is that whatever the outcome of this, it strengthens business in south metro,” he said. “That has been my goal from the start.”

The Atlanta Journal-Constitution

By Leon Stafford

Oct 24, 2018

[Fitch Rtgs: Jacksonville and JEA Ratings Unaffected by Lawsuit]

Fitch Ratings-New York-17 October 2018: The city of Jacksonville's Issuer Default Rating (IDR; AA/Stable) or related ratings and the Jacksonville Electric Authority's (JEA) outstanding revenue bond rating are unaffected by the litigation filed by JEA in connection with its participation in the development of the Plant Vogtle nuclear power plants, according to Fitch Ratings.

A lawsuit filed by the JEA on Sept. 11 in Duval County, FL circuit court asserts that its purchase power agreement (PPA) signed in 2008 with Municipal Electric Authority of Georgia (MEAG Power; Project J revenue bonds rated A/Negative Watch) is invalid. The PPA requires JEA to pay MEAG Power for a portion of the energy output of the Vogtle 3&4 nuclear project, once completed, for the first 20 years of operation. JEA's payments under the PPA are used to pay debt service on MEAG Power's Project J revenue bonds and certain Department of Energy (DOE) loans used to finance Vogtle 3&4. The PPA requires JEA to pay for 50% of construction costs in the event the Vogtle 3&4 projects are not completed and construction is terminated. JEA's legal claim asserts that JEA is not authorized to be a party to this PPA, given its unlimited nature, the fact that it was not approved by the Jacksonville City Council and that provisions of the PPA are in violation of the Florida constitution. In related litigation filed earlier the same day in the U.S. District Court of Georgia, MEAG Power asked for a declaratory judgement affirming JEA's obligations under the PPA.

The nature of the legal claim and its outcome are critically important to repayment of the MEAG Power Project J bonds. Potential rating outcomes for the MEAG Power Project J bonds are discussed in the most recent rating action on MEAG Power with the relevant press release listed below. However, in regards to JEA's and the city's ratings, Fitch does not believe that the filing of litigation specific to this PPA represents a repudiation by the city and/or JEA of the PPA, or an unwillingness on the part of the city or JEA to pay its debts generally. The ratings on the city and the JEA continue to reflect their fundamental credit quality.

JEA's management has indicated publicly that it will continue to honor its obligations under the PPA unless and until such time as a court determines that the PPA is not valid. JEA's obligations under the PPA are unconditional and payable as operating expenses under JEA's bond resolution. Fitch's ratings on JEA, as well as the MEAG Power Project J bonds, assume that JEA's obligations pursuant to the PPA will continue to be met. Fitch's view is based on multiple legal opinions that were provided at the PPA signing and each MEAG Power Project J bond issuance, including opinions provided by the city and JEA's General Counsel that JEA had all necessary power and authority to enter into the PPA. The PPA was additionally court-validated by the Fulton County, GA Superior Court and reviewed by the DOE as part of the federal loan security package.

While the timing and outcome of the court proceedings cannot be known, JEA has made, and expects to continue to make, all payments due under the PPA unless and until a court invalidates the PPA. JEA has set aside more than $50 million in funds for this purpose, which it expects will be sufficient to fund its PPA obligations until the scheduled commercial operation of Vogtle Unit 4 in November 2022. JEA's legal claim with respect to the PPA appears isolated to the legal validity of this one specific contract. Any change in JEA's current intention to continue paying its obligations under the PPA absent a court ruling striking down its validity would cause Fitch to reevaluate all relevant ratings.

Fitch has a rating of 'AA' on JEA's outstanding electric system, bulk power supply and St. John's River Power Park revenue bonds. The 'AA' rating reflects JEA's strong financial profile, rate setting authority, continued reduction in outstanding debt and a diversifying power resource portfolio. In Fitch's view, the significant cost overruns and timing delays associated with Plant Vogtle remain a concern. However, JEA has taken positive steps to minimize the impact on ratepayers by reducing operating costs and retiring debt early, leaving current cost escalations largely manageable to date. Further delays or cost overruns could erode future credit quality, depending on the severity, and will be assessed as they arise.

Fitch's 'AA' IDR on the city reflects our expectation that the city will continue to demonstrate a prudent level of fiscal management, contributing to generally stable financial results and adherence to formal reserve policies that we view as an integral part of the city's overall financial resiliency. Fitch believes JEA will continue to abide by the terms of an interlocal agreement with the city, pursuant to which it makes an annual contribution to the city's general fund budget. The JEA transfer is the second-largest revenue stream for the general fund accounting for approximately 10% of total revenue.

Payments made by the JEA under the PPA secure approximately $1.4 billion in Project J bonds issued by MEAG that are currently rated 'A'/Rating Watch Negative by Fitch. For more information on the Vogtle project and legal disputes, see Fitch Press Releases, 'Fitch Maintains Rating Watch Negative on Municipal Electric Authority of Georgia Power Bonds Project J', dated Sept. 18, 2018 and 'Fitch Places Municipal Electric Authority of Georgia Bonds on Rating Watch Negative', dated Aug. 10, 2018.

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With California Booming, Voters Weigh Most Bond Sales Since 2006.

- **$16.4 billion of debt issues seeking approval in November**
- **Even if voters signed off, authority may not all be utilized**

With California's finances reaping the benefits of a booming economy, voters will have a chance to decide whether to run up the government credit card to alleviate a housing crunch and pay for public works: There's about $16.4 billion of state bonds on the November ballot, the most since 2006.

But don't expect a surge of sales even if voters feel generous. California already has the legal power to issue about $33 billion of bonds that have yet to be sold. Some of it was approved more than 20 years ago, according to data from the treasurer's office. California has about $74 billion in outstanding general-obligation debt.

“They’ve definitely shown themselves to really pick their spots in terms of the market on when to make their debt issuances work for them, which is not always great if you’re an investor looking for more yield,” said Dora Lee, vice president at Belle Haven Investments, which manages about $7 billion of municipal bonds.

California holds statewide elections every two years. In November 2016, voters approved $9 billion for schools, the only bond measure on the state ballot.

In November 2006, voters signed off on all bond measures totaling more than $42 billion.

Here are the four state bond measures:

- Proposition 1:
  $4 billion for affordable housing
- Proposition 2:
  $2 billion for supportive housing for homeless people who are mentally ill
- Proposition 3:
  $8.877 billion for water projects and habitat protection
- Proposition 4:
  $1.5 billion for children’s hospitals

Bloomberg Markets

By Romy Varghese

October 18, 2018, 8:09 AM PDT

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18 Southern California Cities Will Ask to Raise Sales Tax on November Ballot.

Cities across California are banking on sales tax as a solution to inflation, residents’ demand for services and looming pension costs.

Nearly 70 cities and counties will ask voters Nov. 6 to increase or extend sales and use taxes to help pay for public safety, road maintenance, homeless services and a grab bag of amenities often described in their ballot titles as “vital” and “essential.”

Locally, 19 cities in Los Angeles, Orange, Riverside and San Bernardino counties are seeking more sales tax revenue, and nearly all measures are increases. Just one – in the city of San Fernando – would extend an existing tax.

Continue reading.

The Orange County Register

by Alicia Robinson

October 19, 2018

New Orleans Charter School Operator Ordered To Bargain With Union.

The Fifth Circuit Court of Appeals recently held that a New Orleans charter school was not a "political subdivision" exempt from the National Labor Relations Act (NLRA). The NLRA does not apply to States and their political subdivisions. In this case, the charter school challenged the National Labor Relations Board's (NLRB) finding that its operator, Voices for International Business and Education, Inc., was not a political subdivision of Louisiana and thus was not exempt from the NLRA. The Fifth Circuit denied the school's petition for review and in so doing affirmed the NLRB's decision that the school's operator had committed an unfair labor practice when it refused to recognize or negotiate with the labor union that was elected by the employees of the school and ordered the school to recognize and bargain with the union. *Voices for International Business and Education, Inc. v. NLRB, No. 17-60364 (September 21, 2018).*

Background

Voices for International Business and Education, Inc., a Louisiana nonprofit corporation formed by a group of citizens in 2009, operates the International High School of New Orleans (IHS). Since 2009, Voices has operated IHS under a charter with the Louisiana Board of Elementary and Secondary Education.

The United Teachers of New Orleans filed a petition with the NLRB seeking to represent Voices' employees. Voices objected on the ground that the NLRB lacked jurisdiction because Voices was not a private employer subject to the NLRA but a political subdivision of the State of Louisiana. Voices' position was rejected by a hearing officer and the NLRB. Specifically, the NLRB determined that Voices was not a political subdivision of the State of Louisiana as it "was neither created directly by the state of Louisiana so as to constitute a department or administrative arm of the government nor administered by individuals who are responsible to public officials or the general electorate." The NLRB also rejected Voices' request to exercise its discretion and decline jurisdiction.

IHS employees then voted in favor of union representation. Voices again refused to recognize or negotiate with the union, claiming that it was exempt from the NLRA as a political subdivision of Louisiana. The union filed an unfair labor practice charge against Voices for refusing to bargain as required by the NLRA. The NLRB found Voices committed an unfair labor practice and ordered it to recognize and bargain with the union. Based on the NLRB's decision, Voices filed a petition for review with the Fifth Circuit challenging the NLRB's finding that Voices was not a political subdivision of the State of Louisiana.

The Fifth Circuit's Decision and Analysis

The Fifth Circuit ruled that a Louisiana charter school like IHS is subject to the NLRA just as most other private employers in the United States. After noting the NLRA does not define the term "political subdivision," the court relied on the NLRB's definition, which provides that a political subdivision is an entity that is either "(1) created directly by the state, so as to constitute departments or administrative arms of the government, or (2) administered by individuals who are responsible to public officials or to the general electorate."

In finding that a charter school like IHS was not a political subdivision of the State of Louisiana, the court analyzed Louisiana's legislation establishing charter schools in the state and the legislature's purpose for doing so. The court noted that because, by design, the members of Voices' board of directors are privately selected and the public has no control over the selection of Voices' policymakers, Voices lacked the requisite direct political oversight as well as the requisite public control over policymaking to constitute a political subdivision pursuant to the NLRB's definition. Therefore, Voices, as most private employers, is subject to the NLRA.

Notably, in reaching its decision, the Fifth Circuit rejected Voices' argument regarding the public nature of charter schools, which relied on the Louisiana Supreme Court's recent ruling that while Louisiana charter schools are "independent public schools," they are treated as, and are a part of, the public school system. Instead, noting that the Louisiana Supreme Court's ruling was not dispositive of the legal issue before it, the court relied upon a Louisiana attorney general opinion that explains that the mere fact that charter schools are public schools does not mean they are political subdivisions of the State of Louisiana. It likewise rejected arguments that Voices was exempt under the NLRA based on its receipt of public funding, tax-exempt status, and subjection to open meeting laws.

Key Takeaways

While the Fifth Circuit's ruling effectively bars Louisiana and other similar states' charter schools from arguing they are legally exempt from having to deal with unions or union organizing pursuant to the federal labor laws, this is likely not the end of this issue. This is especially true because the NLRB has taken opposite and conflicting views regarding the exempt status of other charter school systems throughout the country. Therefore, charter school operators that do not feel unionization would be a good fit for their respective schools may want to begin (or resume) educating their workforces about the pros and cons of unionizing.

Ogletree, Deakins, Nash, Smoak & Stewart

by Andrew Burnside and Javier Jalice

October 22 2018

Community Bonds Make Investing in Madison Easier.

The City of Madison issued a one-week selling period of municipal bonds in early October to fund the renovations of Olbrich Botanical Garden. Sold in $500 increments, the bonds are meant to be more accessible to residents to provide an opportunity for them to invest in their community.

While these appropriately-named "community bonds" are receiving much attention, the use of bonds to fund City projects is less unusual than it may seem.

David Schmiedicke, City Finance Director, says the City of Madison issues about $100 million of debt a year in the form of bonds to pay for things like facility renovations, road construction and park improvements.

Typically, these investments are sold in $5,000 denominations. They provide low risk for investors because bonds, unlike stocks, are backed by a governmental authority with the power to tax, raise revenue and make investors whole if projects go under.

For the Olbrich project, the community bonds sold at one-tenth of the typical cost are priced to make such investments more accessible to Madison residents.

"This is about…democratizing our debt, allowing people in the City to more easily make that investment, and it's a way for them to participate in the civic action of the City," said Schmiedicke.

The cost of the renovation is split equally between Olbrich Botanical Society, who is doing private fundraising to cover its half, and the City. If community bonds would not have fit for the project, the City would have used normal bonds.

"The City share was going to be debt issued by the City," which is a common way to fund projects such as this, Schmiedicke said. "We're just taking a portion of that debt and issuing it in smaller denominations so that citizens and residents in the city can more easily purchase those investments."

Not only are the community bonds opportunities to financially invest, but are ways to make an emotional connection with the community.

"From a growth perspective, our hope is really that this is something that attaches people to valuable projects and allows us to show that kind of community spirit," said Eric Knepp, superintendent of the City of Madison Parks Division. "There's a certain amount of public good, public commons through funding projects. That's really where the essence of growth comes from."

Schmiedicke said there has been a lot of positive interest expressed in the program. Knepp hopes the majority will be bought by Madison and Dane County residents.

"One thing that we look forward to is the $2.5 million in bonds will be owned by Madisonians who will not only get to enjoy the facility, but get a return on their investment," Madison Mayor Paul Soglin said at a bond information session last week.

Madison Commons

By Sophia Dramm | October 21, 2018

[The Link Between Ballot Propositions and San Antonio's Bond Rating.]()

City government officials and business leaders warn that San Antonio taxpayers would face tax increases and cuts to city services and infrastructure projects if some or all of three propositions on the November ballot are approved.

But how do propositions aimed at referenda rules, city manager salaries, and a firefighter labor contract translate to higher taxes? The answer lies in the City of San Antonio's bond ratings.

Passage of the charter amendments and the changes they would bring could impact the City's perceived stability, which could result in credit rating agencies giving the City a lower bond rating. That means the City would pay higher interest rates on money borrowed for infrastructure projects and the City would "pay more for less city services," officials have said. And if the City wants to maintain the same level of services, taxpayers would fit the bill with increase taxes.

Continue reading.

THE RIVARD REPORT

by IRIS DIMMICK

OCTOBER 21, 2018

Chicago Mayor Halted Pension Crisis, But Leaves Big Bills Ahead.

- **Emanuel doesn't seek tax hike in final budget of his tenure**
- **City's pension bills ramp up after Emanuel leaves office**

Chicago Mayor Rahm Emanuel gave city council members a parting gift by proposing a 2019 budget that doesn't ask them to raise taxes ahead of February's municipal election. But it leaves a heavy lift for his successor.

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.

During his tenure, Emanuel has put all four retirement plans on a path to solvency and already boosted contributions to the funds, raising property taxes and utility fees to cover those bills. While that made headway toward arresting mounting financial strains that caused Moody's Investors Service to downgrade Chicago's bonds to junk grade, his plan delayed until after he left office a big jump in payments needed to pay down a $28 billion debt to the retirement system that built up years before he took office.

"What a lost opportunity," said Dora Lee, vice president at Belle Haven Investments, which manages about $7.5 billion in municipal bonds, including Chicago debt. "This is the time to do something bold and expend the last of your political capital to really put Chicago on a better path, instead of waiting for the next person to deal with the problem."

"He was so bold in his prior budgets, and he did make such great strides in years before in setting Chicago up on a more sustainable path, that this budget was kind of like 'oh, okay,' " Lee said. "I wanted to see given his boldness with previous budgets a little bit more vision."

Emanuel, a two-term Democrat who has decided not to run again, on Wednesday proposed a $10.7 billion spending plan for 2019. The 2019 budget speech touted his work since taking office in 2011, highlighting investments in education, public safety and steps to steady the pensions after the city shortchanged them for years.

"There's no doubt that the mayor can take credit for stabilizing the city's finances," said Laurence Msall, president of the Civic Federation. "He leaves the city after 8 years in much better financial shape than he found it, but the challenges going forward are real."

Emanuel thanked the council for taking the hard votes to steady the city's finances and acknowledged that there is still more work to do.

"They do not build statues for people who restore fiscal stability," Emanuel told a packed council chamber on Wednesday. "But without sound, strong, stable finances, nothing else is possible. Breaking news, you're not going to get a statue. But you have built something more important, more fundamental, and more lasting than any statue. You have built a foundation."

The pension bills will jump because the city will have to pay what actuaries say is needed into the public safety funds starting in budget year 2020 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.

While Emanuel isn't running for re-election in February, the aldermen who have to vote to approve the budget are on the ballot.

"Politically it's difficult to address things like that in an election year," said Neene Jenkins, a vice president and municipal analyst at AllianceBernstein, which oversees $42 billion of state and local bonds, includes some Chicago debt.

Chicago Chief Financial Officer Carole Brown told reporters that Emanuel is planning to have a more comprehensive discussion around pensions and speak to what he thinks is necessary to help address that issue. That may happen in December, she said. Brown has said that the city hasn't ruled out issuing pension-obligation bonds to pay off a big chunk of the pension debt.

Near the end of his final budget speech, Emanuel warned his successors to stay fiscally disciplined.

"If our leaders run up debt, run down pensions, run dry the rainy day fund, it is the next generation whose chances will run out," Emanuel said.

Bloomberg Politics

By Elizabeth Campbell

October 18, 2018, 9:39 AM PDT

Chicago Mayor Skips Over Pension Funding Fix in Final Budget Speech.

CHICAGO — Chicago Mayor Rahm Emanuel unveiled the final budget of his tenure on Wednesday, but put off addressing a pension funding challenge that will hit during his eventual successor's term in office.

Emanuel, who announced last month he was not running for a third term, laid out a $10.67 billion all-funds spending plan, which includes a $3.82 billion operating budget, for the fiscal year that begins on Jan. 1.

Much of the mayor's budget address to the 50-member city council focused on his administration's accomplishments over the last seven years, including raising fees and taxes to save the city's four pension funds from becoming insolvent and shrinking a chronic budget deficit.

"One thing I have learned is that they do not build statues for people who restore fiscal stability," he said in prepared remarks. "But without sound, strong, stable finances, nothing else is possible."

The nation's third-largest city faces pension contributions that will grow to $2.13 billion in 2023 from $1.02 billion this year. Plans to seek council approval for as much as $10 billion in pension debt have been delayed in the wake of Emanuel's lame-duck status and rising interest rates.

Chicago’s unfunded pension liability was $28 billion in 2017, down from $35.7 billion in the prior year. The big liability, along with years of budget deficits, led to downgrades of Chicago’s general obligation credit ratings and higher borrowing costs.

Carole Brown, Chicago’s chief financial officer, told reporters that a pension borrowing would not constitute a complete solution and that Emanuel intends to have a comprehensive discussion on addressing the problem by year-end.

Laurence Msall, president of the Chicago-based Civic Federation, a government finance watchdog group, said besides pensions, the city is also dealing with rising operating costs and modest revenue growth, which city officials pegged at just over 2 percent for the fiscal 2019 budget.

“There will need to be additional structural changes,” Msall said.

Emanuel’s budget includes $25.7 million to fund a proposed consent decree mandating changes in police practices. It also incorporates a new contract with the American Federation of State, County and Municipal Employees, but not with police and fire unions, whose contracts expired in 2017, according to city officials.

The spending plan, which eschews new hikes in taxes and fees, eliminates a projected $98 million deficit through various measures, including savings from refinancing the city’s GO bonds with a higher-rated securitization of sales tax revenue.

By Reuters

Oct. 17, 2018

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

Maryland’s Poor Plan for Public-Prive Partnership Toll Roads.

Maryland Gov. Larry Hogan’s (R) $9 billion plan to add tolled express lanes to the Capital Beltway and Interstate 270 is flawed.

Maryland transportation officials are proposing to borrow the project’s cost from private investors, but they are downplaying how much more expensive it is to borrow directly from a Wall Street bank or a global corporation rather than use municipal bonds, the traditional method of financing. And they are minimizing the potential risks for Maryland residents now and in the distant future, as so-called public-private partnership contracts include pages of complex agreements that extend for decades.

Instead of being up front with the public, those officials point to an alleged local success story: Virginia’s experiment with using private financing to add tolled express lanes to the Beltway and Interstate 95. So, let’s take a look.

Continue reading.

The Washington Post

By Jeremy Mohler
Jeremy Mohler is a member of the strategic communications team at In the Public Interest.

October 12

Investors Just Want an Illinois Governor Who Will Avoid a Junk Rating.

- **Bondholders want next governor to pass budgets, fix pensions**
- **Rauner, Pritzker vie to lead state that's one step above junk**

Illinois investors are endorsing fiscal stability this election.

No matter who wins the gubernatorial race next month, bondholders want the next chief executive to avoid a repeat of the longest budget impasse in U.S. history, one that put Illinois on the brink of becoming the first junk-rated state. That gridlock — the result of a two-year standoff between Republican Governor Bruce Rauner and the Democrat-run legislature — drove unpaid bills to a record $16.7 billion, forced cuts in social services, and sent borrowing costs to multi-year highs.

The fiasco also kept the state's leaders from making any real progress on fixing its biggest challenge — the government worker pension plans that are falling deeper into the red while consuming more and more tax dollars.

"We don't care if it's a Democrat or Republican, we just want to make sure that whoever is in the office knows how much new taxes and revenue increases are needed to make those hard decisions of trying to deal with pensions," said Dora Lee, vice president at Belle Haven Investments, which manages about $7.5 billion in municipal bonds, including Illinois debt. "We just need someone who has the vision and the political capital to make those hard choices because time is kind of running out."

Prolonged Stalemate

Rauner, a former private-equity executive and multimillionaire, is running for re-election against Democrat J.B. Pritzker, the billionaire Hyatt hotel heir. Rauner took office in January 2015 as the state confronted a deficit amid expiring income-tax hikes. Rauner refused to raise taxes unless lawmakers agreed to an agenda that included property-tax cuts, limits on unions and changes to worker-compensation laws. Democrats balked. The stalemate didn't end until July 2017, when lawmakers, including members of his own party, overrode his veto to enact a spending plan that raised income levies.

Rauner is calling for reforms and says more tax hikes won't solve the state's problems. Pritzker is campaigning for a graduated income tax — instead of the current flat tax — that he argues will lower those on the middle class. That would require a constitutional amendment.

Pritzker held a 20-point lead over Rauner among likely voters, according to an Ipsos, Reuters and University of Virginia Center for Politics poll released Wednesday. Likely voters favored Pritzker 50 percent, compared to 30 percent for Rauner, the poll showed.

One party rule has worked to ease impasses in other places. California Governor Jerry Brown, a term-limited Democrat, is leaving office after amassing a surplus of about $9 billion compared to the $27 billion deficit when he took over for his Republican predecessor in 2011. But single-party control is no guarantee. New Jersey's leaders have yet to right the state's finances since Republican Governor Chris Christie exited office in January, with Governor Phil Murphy and fellow Democrats struggling to find common ground.

Beyond Gridlock

Even though Rauner pushed for fiscal reforms that would have cut costs, none of those were enacted, said John Miller, head of municipals at Nuveen, which holds more than $140 billion in state and local debt, including Illinois bonds.

“The concept that there could be a better, maybe a more productive dialogue where you could actually pass some fiscal changes that require legislation, that’s got to be considered better than gridlock,” Miller said. “I actually think the bond market would respond more positively to a change,” said Miller, who noted that his comments were from a revenue, expenses and budgeting point of view and not a political perspective.

Investors have long punished Illinois for its fiscal woes. Yields on Illinois’s 10-year general-obligation bonds jumped to as much as 3.4 percentage points above benchmark in June 2017 as credit-rating companies warned that Illinois could lose investment-grade status if the impasse wasn’t resolved. That gap has since fallen to 1.8 percentage points but is still the highest among the 20 U.S. states tracked by Bloomberg.

“If there’s unified government, whether you view that favorably or unfavorably, it does mitigate appropriation risk and decreases the chance of a government shutdown, and it also mitigates the risk of not having a budget passed,” said Dennis Derby, a portfolio manager at Wells Fargo Asset Management, which holds $39 billion of municipal debt, including Illinois bonds. “No matter who wins, going forward, we would want to see balanced budgets, attempts at pension reform and a reduction in the payables backlog.”

Bloomberg Markets

By Elizabeth Campbell

October 11, 2018, 6:29 AM PDT

— With assistance by Danielle Moran

Rising Interest Rates Cast Shadow on Chicago Pension Bond Plan.

CHICAGO (Reuters) – A continued surge in interest rates could sink a plan under consideration by Chicago Mayor Rahm Emanuel’s administration for a massive bond sale to boost pension funding, a city official said on Thursday.

FILE PHOTO: A general view of the city of Chicago, March 23, 2014. REUTERS/Jim Young
Carole Brown, the city’s chief financial officer, said a securitization was still on the table while she keeps a watchful eye on rates.

“If rates continue to rise it is conceivable they will rise to the level where the financing didn’t make sense and we wouldn’t proceed,” she told Reuters.

The U.S. Federal Reserve has signaled that it will continue to raise rates after it lifted the key lending rate on Sept. 26.

Rates in the U.S. municipal bond market have jumped particularly over the last week. Since the pension bond idea first surfaced at an Aug. 2 investors conference hosted by Emanuel, 30-year bond yields on Municipal Market Data’s benchmark triple-A scale climbed to 3.41 percent from 3.05 percent.

Brown is mulling a highly rated securitization of a Chicago revenue stream that could produce as much as $10 billion for pensions, boosting their currently low funded ratio of 26 percent.

The city has already employed a bond structure to refund outstanding debt that securitizes sales tax revenue with a statutory lien for investors that resulted in higher credit ratings and lower borrowing costs.

Chicago’s unfunded pension liability was $28 billion in 2017, down from $35.7 billion in the prior year. That liability, along with chronic budget deficits, led to downgrades of the city’s general obligation credit ratings and higher borrowing costs.

Uncertainty over the pension bond plan grew with Mayor Rahm Emanuel’s announcement last month that he will not seek a third term in office.

Prior to that announcement, the head of the Chicago City Council’s Progressive Reform Caucus and Paul Vallas, a former Chicago budget director who is running for mayor, cautioned against hasty consideration of the plan by the council.

Brown said she does not have a timetable for a decision on moving forward, noting however that a new mayor will take office next May.

Meanwhile, pension bonds will not play a part in the fiscal 2019 budget Emanuel is scheduled to unveil next week, she added.

“The mayor had always planned on considering it separate and apart from anything else including the budget,” Brown said.

Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis

OCTOBER 11, 2018

Emanuel Vows to Confront Pension Crisis ‘Before the End Of the Year’

Mayor Rahm Emanuel vowed Friday to confront Chicago’s skyrocketing pension payments “before the end of the year,” but he refused to say whether the solution he seeks will include $10 billion in pension borrowing.

“I’ve never been patient. I have a sense of urgency to get work done. And I have a moral commitment—-both to the public and to my successor–to leave the city better off and in a stronger position than the day I walked in,” the mayor said.

“We’ve always confronted challenges regardless of political risk . . . I’m a mayor for all eight years, not 7 1/2 . . . I’m gonna deal, first with the budget. I will, before the end of the year, address the issue of pensions.”

Under repeated questioning by the Chicago Sun-Times, Emanuel refused to say whether he would revisit the $10 billion borrowing, even though the potential savings has been diminished by rising interest rates.

Nor would he say whether there is a viable alternative that would minimize the need for another punishing round of post-election tax increases.

"I'm gonna address the issue of pensions, and you'll just have to wait for that," he said, playing it coy.

Emanuel's lame-duck status has emboldened aldermen who have taken a series of tough votes, just to begin to solve Chicago's $28 billion pension crisis.

Chicago taxpayers have already endured a parade of property tax increases for police, fire and teacher pensions, two increases in the monthly tax tacked on to telephone bills and a 29.5 percent surcharge on water and sewer bills.

It's not at all clear whether Emanuel still has the juice to push the pension borrowing through the City Council.

Even his own Chief Financial Officer Carole Brown acknowledged this week that, "Your political capital changes when you're not running for re-election."

But during Friday's interview, Emanuel bristled at the suggestion that his lame-duck status has diminished his ability to finish the job he started.

"The first test [after he announced he wasn't running] was a vote I had on e-cigarettes. And we passed it in 24 hours overwhelmingly," the mayor said.

"I believe this budget will pass. We've never not passed a budget obviously. And never had to struggle. In 7 1/2 years, never lost a vote. So, I don't buy that" claim that his political capital has diminished.

In late August, Emanuel offered a spirited defense of the pension borrowing plan — even after mayoral candidate Paul Vallas warned that it would put beleaguered Chicago taxpayers in a "financial straightjacket."

The mayor initially planned to rush the borrowing through the City Council in September — before introducing his final city budget.

That timetable was dramatically altered on Sept. 4. That's when Emanuel touched off the political equivalent of an earthquake by choosing political retirement over the uphill battle for a third-term.

After that, the budget became the primary focus because, as Brown put it, "We know we have a finite amount of time."

Brown said this week she still believes the $10 billion borrowing makes "financial sense if we can achieve the right rate."

"Whether or not we do this, the next administration will be faced with how to pay more than $277 million in pension payments next year. It's what they're gonna be looking at when they do their 2020 budget," she said.

"If we can come up with a financially sound way to stabilize our pension funds while we still make contributions, but make those contributions more manageable over time and lower the cost of funding our pensions, I don't know why we wouldn't consider it. Which is why the mayor is still considering it."

But if interest rates continue to rise, Emanuel may be forced to shelve the borrowing and find another way.

"If it doesn't cost us money in the long run, we should do whatever we can that's fiscally responsible to avoid the big hit . . . But with interest rates rising, I don't know how feasible it will be," Ald. Joe Moore (49th) said earlier this week.

After a five-year ramp to actuarial funding ends, Chicago taxpayers will be on the hook to keep city employee pension funds on the road to 90 percent funding.

By 2023, the city's contribution to all four funds will nearly double, from $1.2 billion this year to $2.1 billion, according to the city's annual financial analysis.

The $10 billion pension borrowing was tailor-made to soften the post-election blow.

But municipal finance experts have raised concerns, pointing to pension-bond defaults in Detroit, California and Puerto Rico.

They wonder what would happen if the market tanks and what specific city revenue would be used to back the bonds, now that Emanuel has isolated sales tax revenue in a special fund and used that "securitization" structure to refinance $3 billion in city debt.

The Chicago Sun-Times

By Fran Spielman

10/12/2018

[Emanuel's Final Budget Won't Include $10B Pension Borrowing, But It's Not Dead.]

Mayor Rahm Emanuel's final budget will not include a controversial $10 billion pension borrowing, but that doesn't mean he has shelved the massive borrowing tailor-made to minimize the need for another punishing round of post-election tax increases.

Chief Financial Officer Carole Brown said it was never the mayor's intention to tie the pension borrowing and the budget together.

The plan was to do them separately, with the borrowing coming first.

That timetable was dramatically altered on Sept. 4. That's when Emanuel touched off the political equivalent of an earthquake by choosing political retirement over the uphill battle for a third-term.

"When that changed, the conversation internally and externally changed because we start making sure that we're all focused on the right priorities because we know we have a finite amount of time," Brown said.

"It's never just about the math because the math works. It's about timing. … It's about having other things that we have to get done like the budget and what Council and others want to be focused on."

Now a final decision on the pension borrowing has been put off until after the City Council approves what Brown described as a "pretty vanilla" budget with no new taxes and fees.

Meanwhile, interest rates have started to rise, cutting into the potential savings.

Brown still believes the $10 billion borrowing "makes financial sense if we can achieve the right rate."

"Whether or not we do this, the next administration will be faced with how to pay more than $277 million in pension payments next year. It's what they're gonna be looking at when they do their 2020 budget," she said.

"If we can come up with a financially sound way to stabilize our pension funds while we still make contributions, but make those contributions more manageable over time and lower the cost of funding our pensions, I don't know why we wouldn't consider it."

Emanuel's lame-duck status has emboldened aldermen who have taken a series of tough votes just to begin to solve Chicago's $28 billion pension crisis.

It's not at all clear whether he still has the juice to push the pension borrowing through the City Council.

Brown acknowledged that "your political capital changes when you're not running for re-election."

But she also said that "a lot" of incumbent aldermen seeking re-election "understand the difficult choices they're gonna have to make" next year and "the benefits" of the $10 billion borrowing "and would be supportive of it."

Ald. Joe Moore (49th), an Emanuel ally, said he'd like nothing more than to minimize the post-election pain for Chicago taxpayers.

They have already endured a parade of property tax increases for police, fire and teacher pensions, two increases in the monthly tax tacked on to telephone bills and a 29.5 percent surcharge on water and sewer bills.

"Most of my colleagues are expecting to come back next year. If at all possible, they'd like to avoid what will be a very difficult choice in how we close that pension gap and avoid going off the cliff. But you don't want to repeat the mistakes of the past," Moore added.

"If it doesn't cost us money in the long run, we should do whatever we can that's fiscally responsible to avoid the big hit. … But, with interest rates rising, I don't know how feasible it will be."

After a five-year ramp-up to actuarial funding ends, Chicago taxpayers will be on the hook to keep city employee pension funds on the road to 90 percent funding.

By 2023, the city's contribution to all four funds will nearly double — from $1.2 billion this year to $2.1 billion, according to the city's annual financial analysis.

The $10 billion pension borrowing is tailor-made to minimize the need for another punishing round of post-election tax increases.

Days before pulling the plug on his re-election bid, Emanuel offered a spirited defense of the pension borrowing plan. Mayoral candidate Paul Vallas, meanwhile, has warned it would put Chicago taxpayers in a "financial straitjacket."

Municipal finance experts also have raised concerns about Emanuel's plan, pointing to pension-bond defaults in Detroit, California and Puerto Rico.

They wonder what would happen if the market tanks and what specific city revenue would be used to back the bonds, now that Emanuel has isolated sales tax revenue in a special fund and used that "securitization" structure to refinance $3 billion in city debt.

The Chicago Sun-Times

By Fran Spielman

10/11/2018

[Columbia Threadneedle Investments Launches Strategic Beta Municipal Bonds ETF.]

Columbia Threadneedle has expanded its strategic beta exchange-traded fund (ETF) offering with the launch of Columbia Multi-Sector Municipal Income ETF (MUST).

MUST tracks the Beta Advantage Multi-Sector Municipal Bond Index, which has exposure to five sectors of the municipal bond market using a rules-based approach to bond selection. Columbia Threadneedle drew upon its expertise as an experienced active investment manager of municipal bond portfolios to create the strategic beta rules that are the foundation for the construction of the index. MUST's custom index was designed by Columbia Threadneedle's municipal fixed-income team and is administered by Bloomberg Index Services Limited.

MUST is intended to serve as a core municipal bond allocation in investors' portfolios but can also complement traditional core holdings to deliver higher tax-exempt income and risk-adjusted return potential than traditional benchmark products.

"Today's municipal market is comprised of nearly USD4 trillion in assets spread out among more than one million debt offerings from 80,000 issuers," says Catherine Stienstra, who oversees more than USD18 billion in assets as head of municipal bond investments at Columbia Threadneedle Investments and serves as Lead Portfolio Manager of MUST. "In the muni space, buying individual bonds or purchasing a debt-weighted benchmarked product doesn't give investors the diversification they need, nor the ability to manage credit risk transparently and efficiently. We created MUST with the goal of simplifying investors' municipal bond exposure without compromising their investment objectives."

Many of the standard municipal bond benchmarks in the market today were designed by index providers to measure limited areas of the market. As a result, they adhere to narrowly defined parameters that deliver distinct characteristics rather than desirable investment outcomes. Also, traditional benchmarks can distort the true investment opportunity set by favouring larger state general obligation bond issuers at the expense of revenue-backed bonds, since their constituents are typically weighted based on indebtedness.

"Even though most investors' current exposure to municipals is through actively managed portfolios or individual bonds, we've seen a growing interest in passive products in the municipal space," says Marc Zeitoun, CFA, head of strategic beta at Columbia Threadneedle Investments. "Given the limitations of existing municipal bond benchmarks, we opted to draw upon our expertise in managing active municipal bond portfolios to build an innovative, strategic beta fund that leverages our best thinking, but in a cost-effective, risk-managed way."

11/10/2018

Atlanta Figures out How It's Going to Spend Billions in Transit Funding.

Our weekly "New Starts" roundup of new and newsworthy transportation projects worldwide.

Atlanta Council Votes to Spend $2.7 Billion on "More MARTA"

After several months of discussion and bickering, the Metropolitan Atlanta Rapid Transit Authority (MARTA) board voted unanimously Oct. 4 to approve a plan for spending $2.7 billion in sales tax revenues headed its way from the city of Atlanta.

The Atlanta Journal-Constitution reports that the transit expansion plan finally approved by MARTA differs significantly from the one the agency first presented to the public in the spring. Reflecting some adjustments that had been recommended a week before the vote, the plan calls for more money for light rail service along the Atlanta Beltline and less money for service along the "Clifton Corridor" leading to Emory University and the Centers for Disease Control. The revised plan also upgrades a proposed bus rapid transit line along Campbelltown Road to the Greenbrier Mall in the city's southwest corner to a light rail line.

The shift in emphasis from the Clifton Corridor to the Beltline came in response to both Beltline advocates who wanted light rail on the entire 22-mile loop around the city (that's not in the plan), Clifton Corridor opponents who argued that the project should get no funding at all because the city of Atlanta had not yet annexed the Emory University area when the half-cent sales tax that will fund these projects was approved in 2016, and residents who felt Campbelltown Road deserved higher-quality transit service.

The projects described in the plan will be built over a 40-year time frame. The sales tax revenue will not be enough to cover the cost of these projects, let alone the entire $11.5-billion wish list the Atlanta City Council prepared after the tax was approved. MARTA will have to find other local, state and Federal funds to make these improvements and expansions a reality.

But Robbie Ashe, executive director of the MARTA board, told the AJC that this package reflects a larger change in attitudes towards mass transit regionwide. "Over the decades there have been fights to keep transit out of pieces of the region," Ashe said, according to the Atlanta Journal-Constitution. "We're no longer having that fight. … Now the fight is why isn't transit in my community and why isn't it there soon enough."

Work Begins on "Express" Tram-Train Line in Paris Suburbs

Metro Report International reports that work has begun on a new tram-train route that will connect several communities in Paris' western suburbs. The T13 Express construction project commenced Oct. 5 with groundbreaking for a new tram terminal at Versailles.

This first phase of the T13 Express line involves mostly upgrading existing track along Paris' Grand Ceinture freight rail belt line. Most of the 18.8-kilometer (11.7-mile) initial segment will use this right-of-way. Trains will run from the RER Line C station at Saint-Cyr to Noisy-le-Roi on a currently unused segment of the line and from Noisy to Saint-Germain GC on a section that already carries passenger traffic. Four kilometers of new tracks will be laid to take the line from Saint-Germain GC to an interchange station with RER Line A in Saint-Germain-en-Laye.

The tram-trains will stop at 11 stations, six of them new and five refurbished. In addition to the connections with the two RER lines, the T13 Express line will also have interchanges with Transilien lines L, N and U.

The line is expected to carry 21,000 passengers daily when it opens for service in 2021. A northern extension planned in the long term would nearly double the daily ridership to 40,000. The Île-d--France region is picking up more than half of the line's €306.7 million (US$355.6 million) cost, with the département of Yvelines and the central government taking care of the remainder.

Public-Private Partnership to Boost Reverse-Commute Service in Chicago Suburb

With public funds to operate and expand service in short supply, Metra, the agency that operates commuter and regional rail service in Chicagoland, is turning to a public-private partnership for the money it needs to boost service from Chicago to a major suburban employment center north of the city.

According to a news story in Railway Track and Structures, Metra has entered into an agreement with Lake County Partners, an economic-development organization funded by Lake County businesses and the county government, to fund additional reverse-peak train service and build a universal crossover near Lake Forest, which Metra says is necessary for it to add even more service on the Milwaukee District North Line.

The agreement responds to a request from Lake County officials that Metra explore ways of enhancing reverse-commute service so businesses in the county can more effectively recruit and retain employees who live in Chicago. Currently, there are no outbound express trains during morning peak hours, and the afternoon trains into the city depart either too early or too late to be of use to most employees living in Chicago. Upgrades to the signaling system on the North Line now make additional reverse-commute service possible. Lake Forest is the closest Metra station to a major employment cluster in Lake County.

Under the agreement, Metra and the partnership will split the $1 million cost of running one new reverse-commute train each way during the peak hours under a two-year pilot program. The joint venture will also draw up a definitive agreement for splitting the crossover's $4.75 million construction cost, with the business partnership contributing $2.75 million and Metra and local governments in Lake County chipping in $1 million each.

NEXT CITY

BY SANDY SMITH | OCTOBER 12, 2018

Puerto Rico Needs a Better Debt Deal.

Rosy assumptions about what the island can afford to pay bondholders threaten to doom

its future.

History is littered with examples of ill-designed debt restructuring exercises that soon unraveled at great economic and human cost. Judging by the recently announced debt restructuring arrangement for Puerto Rico's sales tax-backed bonds (COFINA), the island's economy risks joining those ranks.

The COFINA restructuring doesn't go nearly far enough. It saddles Puerto Rico with escalating debt payments for the next 20 years, even though the economy has been in a decade-long slump. It also sets a dangerous precedent. If Puerto Rico's government and the oversight board created by Congress agree to similar terms with creditors who hold General Obligation bonds, it will be just a question of time before the commonwealth is forced to default yet again or curtail public pension payments upon which more than 325,000 workers depend.

By far the most important condition for a successful debt restructuring is a realistic assessment of the economy's growth potential and its capacity to repay its debtors. Overly optimistic assessments of those prospects are a sure recipe for failure. They set up the economy for another debt restructuring and, as the economy labors under the weight of a debt overhang, they undermine investor confidence.

Anyone doubting the adverse consequences of such unrealistic assessments of an economy's ability to pay might want to look at Greece's recent sorry experience.

The Greek economy has paid dearly for the failure of the International Monetary Fund in 2010 to recognize that Greece had a solvency problem rather than a liquidity problem, and that its economy was likely to contract sharply by attempting draconian budget belt-tightening within a Euro straitjacket. The net result of such wishful thinking: After almost a decade since the first restructuring, the Greek economy is still deeply depressed and in need of further debt restructuring.

The Puerto Rican government and its oversight board similarly appear to be unrealistically optimistic about the island's economic growth prospects and thus its ability to pay. The proposed COFINA debt restructuring arrangement, which covers around $17 billion, or one-third of the island's bonded debt, initially reduces Puerto Rico's debt service payments. However, those payments eventually double and then remain at a high level due to the inclusion of an insidious "capital appreciation bond," which rapidly increases in value while the other bonds are being paid off.

Although an influx of federal disaster relief and Medicaid funding is temporarily boosting Puerto Rico's economy, it would be irresponsible to expect these benefits to last and support a rising debt service burden. Indeed, federal budget transfers are due to fall off a cliff in five years. Moreover, the island's economic growth will be impeded by poor demographics, as the economically active population likely will continue to move to the mainland in search of better opportunity.

Prior to Hurricane Maria, Puerto Rico's economy was in a 10-year secular decline that saw it contract by more than 10 percent. Absent the reinstitution of generous investment incentives from Congress or the introduction of a federally funded earned income tax credit, it would seem irresponsible to premise a debt restructuring program on the idea that the Puerto Rican economy is somehow going to boom just as federal grants are scheduled to dry up.

As we have previously written, structural reforms that improve the efficiency of doing business in Puerto Rico are important and would help boost economic growth. However, they cannot reasonably be expected to offset the loss of federal funds, the contractionary effects of fiscal consolidation and ongoing outmigration.

The implications of the proposed COFINA deal for restructuring the remainder of the island's debt obligations are also a concern. The old COFINA bonds were a fast path to deep insolvency, with debt service rising from $0.7 billion to $1.8 billion over the next 25 years. The new bonds offer some relief, with debt service starting at $0.45 billion and reaching $1 billion. The restructured bonds also offer the junior COFINA bonds enhanced security in exchange for the fall in debt service, and the new bonds will be harder to restructure in the future. And by the end of the 2020s, the proposed payments on the COFINA bonds alone would push Puerto Rico's debt burden — assessed using the standard municipal bond metric of debt service against the entity's own revenues — over that of an average U.S. state.

With Puerto Rico's limited ability to repay, generosity to one set of bondholders necessarily reduces what the commonwealth can reasonably offer to other bondholders and claimants. The sustainability of Puerto Rico's debt restructuring needs to be assessed comprehensively, not by looking narrowly at each piece of the bigger puzzle.

It is hardly in Puerto Rico's interest to have a failed debt restructuring agreement that will hobble the island's economic growth prospects, even as it struggles to restore basic living conditions following the devastation of hurricanes Maria and Irma and the loss of thousands of American lives.

From the outset, the oversight board has said that it would seek a "once and done" restructuring of Puerto Rico's debt. One can only hope that it has not now switched to an "over and out" strategy, whereby overly generous consensual agreements are reached with the island's creditors before the board's current term expires in August 2019.

Instead of taking refuge behind unrealistically optimistic assumptions, the board and Puerto Rico's government need finally to take the difficult decisions needed to reset the island's debt at sustainable levels for the long term.

Bloomberg Opinion

By Antonio Weiss, Brad W. Setser, and Desmond Lachman

October 8, 2018

Antonio Weiss, a senior fellow at the Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government, served as counselor to the secretary of the Treasury until January 2017.

Brad W. Setser is the Steven A. Tananbaum senior fellow for international economics at the Council on Foreign Relations.

Desmond Lachman is a resident fellow at the American Enterprise Institute.

Puerto Rico Creditors End Opposition to Bank Debt Restructuring.

SAN JUAN — Puerto Rico's unsecured creditors will drop their opposition to a deal to restructure roughly $4 billion of debt issued by the U.S. commonwealth's defunct Government Development Bank (GDB), under an agreement revealed on Friday.

During a U.S. District Court hearing, lawyers for the government, the unsecured creditor committee (UCC) and Puerto Rico's federally appointed financial oversight board announced the agreement.

This advances the island's first consensual debt restructuring under the federal Puerto Rico Oversight, Management and Economic Stability (PROMESA) Act.

"We think that Title III debtors and creditors are better off," said Luc Despins, a lawyer from Paul Hastings who represents the creditor committee.

Overwhelmed with $120 billion of debt and pension liabilities, the Puerto Rico government and four of its public corporations last year filed for a court-ordered bankruptcy process under Title III of the PROMESA Act.

The proposed GDB restructuring deal is being pushed through Title VI of the federal law, which provides for a consensual restructuring framework between the government and creditors. The plan, overwhelmingly approved by creditors last month, would transfer to a GDB Debt Recovery Authority the bank's municipal loan portfolios, real estate assets and unencumbered cash. The authority would issue new bonds backed by a statutory lien on those assets in an amount equal to 55 percent of outstanding debt.

The deal calls for establishment of a Public Entity Trust, which would mostly receive non-performing loans made by the GDB to other government entities.

The unsecured creditor committee, mostly government suppliers and labor unions, had tried to halt the proposed GDB restructuring deal, arguing it violated the court-ordered bankruptcy stay and PROMESA. The group also raised a flag over the deal's release of potential claims against current and former GDB directors, officers and other representatives.

U.S. Judge Laura Taylor Swain, who is overseeing the island's bankruptcy, last month rejected a motion by the committee to stop the deal. Under the latest agreement, the creditor committee will withdraw all legal actions against the deal, as well as any claim in connection with issuance of GDB debt. Certain funds and deposits that would have gone to the GDB Debt Recovery Authority will now go to the Public Entity Trust.

If Swain approves the agreement, the next step would be final court approval, which the government expects by Nov. 6.

The agreement does not require a recertification of the GDB restructuring deal, nor does it affect the schedule for its approval, lawyers said.

Puerto Rico also has deals in the works to restructure debt issued by its bankrupt Sales Tax Financing Corporation, known as COFINA, and Electric Power Authority (PREPA).

By Reuters

Oct. 5, 2018

(Reporting By Luis Valentin Ortiz, additional reporting by Karen Pierog in Chicago; Editing by Daniel Bases and David Gregorio)

National Public Finance Guarantee Corporation Commences Legal Action Seeking to Lift PROMESA Litigation Stay to Allow for the Appointment of a

PREPA Receiver for the Protection of Customers and Creditors.

Action Follows Successful Appeal of Title III Court Ruling That Had Denied a Similar Motion Made in 2017

Receiver Necessitated by Chronic and Ongoing Mismanagement and Undue Political Influence at PREPA

PURCHASE, N.Y.–(BUSINESS WIRE)–National Public Finance Guarantee Corporation ("National"), an indirect subsidiary of MBIA Inc. (NYSE:MBI), today announced that National, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. ("the Creditor Group"), have filed a motion in the U.S. District Court for the District of Puerto Rico to lift the PROMESA litigation stay that will allow the Creditor Group to seek to enforce its right to compel the appointment of an independent receiver for the Puerto Rico Electric Power Authority ("PREPA"). The Creditor Group filed a similar motion in July 2017 that was denied by the District Court. The new motion follows a successful appeal of that denial, as the First Circuit Court of Appeals recently vacated the District Court's decision and remanded the case for further proceedings.

The appointment of a receiver, which would assume operational control of PREPA to protect the interests of PREPA's customers and creditors, is necessitated by the utility's well-documented history of mismanagement and undue political interference in its operations, the combined results of which were laid bare by Hurricanes Irma and Maria.

"Successfully transforming PREPA is critical to the future of Puerto Rico and its citizens," said Bill Fallon, CEO of National Public Finance Guarantee Corporation. "However, PREPA's current governance structure is incompatible with achieving that goal. Political meddling in PREPA's affairs has resulted in five different chief executives in the past thirteen months, a management team made up of political operatives rather than utility experts, a board of directors that is beholden to political forces and conflicts of interest throughout the organization. The end result is an overstaffed yet underskilled utility lacking in transparency. PREPA has failed to collect $3.4 billion in receivables while it sits in bankruptcy, openly defies the orders of its regulator, and subjects its customers to frequent outages and long repair times. It is inconceivable that PREPA can transform itself or attract the necessary private investment to do so under the current circumstances. An independent receiver will insulate PREPA from political influence, stabilize the company's operations and set it on a path for future success. The people of Puerto Rico and all of PREPA's stakeholders deserve nothing less."

Bondholders holding at least 25 percent in principal amount of the PREPA bonds outstanding have a statutory right to the appointment of a receiver following an event of default. The Creditor Group represents approximately 27 percent of the outstanding bonds.

Forward-Looking Statements

This release includes statements that are not historical or current facts and are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "intend," "will likely result," "looking forward" or "will continue," and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected, including, among other factors, the possibility that MBIA Inc. or National will experience increased credit losses or impairments on public finance obligations issued by state, local and territorial governments and finance authorities that are experiencing unprecedented fiscal stress; the possibility that loss reserve estimates are not adequate to cover potential claims; MBIA Inc.'s or

National's ability to fully implement their strategic plan; and changes in general economic and competitive conditions. These and other factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying MBIA Inc.'s or National's forward-looking statements are discussed under the "Risk Factors" section in MBIA Inc.'s most recent Annual Report on Form 10-K, which may be updated or amended in MBIA Inc.'s subsequent filings with the Securities and Exchange Commission. MBIA Inc. and National caution readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. National and MBIA Inc. undertake no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.

October 04, 2018 09:04 AM Eastern Daylight Time

National Public Finance Guarantee Corporation, headquartered in Purchase, New York is the world's largest U.S. public finance-only financial guarantee insurance company, with offices in New York and San Francisco. Please visit National's website at www.nationalpfg.com.

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Judge Derails Lewiston's Bid to Issue Wastewater Bonds.

Rules city did not meet requirements when it posted notice of court hearing

Second District Judge Gregory FitzMaurice on Wednesday dismissed the city of Lewiston's request to issue bonds to rebuild its wastewater treatment plant, ruling that the city didn't meet the legal requirement to post notice of a court hearing at a "prominent" location at city hall.

Boise attorney Stephanie Bonney, who argued the case for Lewiston, said the city will refile its request for judicial confirmation of the bonds. But city officials have not decided whether to reboot the whole process, including holding a new public hearing and bringing a new resolution to the city council.

"The statues don't address that," Bonney said, noting that starting over would be the safest route. "But that also bumps you back for at least a couple of months. And the issue here is that they need to proceed with funding and the project as soon as possible."

City Engineer Shawn Stubbers said the setback shouldn't affect when construction can begin on the plant. The city can’t apply for state revolving loan funds for the project until January and won’t know the results until March, so he said there is time to pursue judicial confirmation again.

The state loans are preferable because they carry a lower interest rate than the municipal bond market, Stubbers said. Previous applications have been unsuccessful, so the city needs the municipal bonding capacity to backfill the $28.5 million needed for the project if the state application is completely or partly denied.

FitzMaurice didn’t rule on the substance of the city’s request. The city council decided this summer to seek judicial confirmation rather than put the issue on the November ballot, and Bonney argued that the need for repairs is urgent enough to seek approval from a judge, rather than voters.

Retired 2nd District Judge John Bradbury filed a motion to dismiss the request Sept. 12, the day before the confirmation hearing. Bradbury argued that even though the city complied with the statutory requirement to post notice of the hearing 30 days in advance, its placement on a bulletin board with several other notices eight to 10 steps away from the city hall front door was not prominent enough.

In a ruling the judge himself described as harsh, FitzMaurice said he can lawfully have jurisdiction over the case through publication and posting of the hearing notice, according to the requirements in Idaho code. The city complied with the publication requirement by placing a notice in the Lewiston Tribune for three consecutive weeks, but it fell short on the posting requirement by placing the notice on a bulletin board labeled for public meeting agendas at the east end of the lobby.

“A Lewiston citizen, who was going to city hall to pay their water and sewer bill or to get a building permit, would likely not look at the board,” FitzMaurice wrote. “They would be more likely to see a notice posted on the front door of city hall, particularly since there are not nine notices posted on the front door.”

The judge noted Bradbury’s separate argument that the request for judicial confirmation should be dismissed because there is no evidence of an emergency situation at the plant, but he didn’t rule on its merits either.

Bradbury agreed that the word “emergency” doesn’t exist in the judicial confirmation statute, but said earlier court decisions have interpreted it that way. He also said he will lodge another objection once the city refiles its request, this time based solely on the merits of the case.

“As long as the right to vote is involved, I’m going to be involved,” Bradbury said. “My view is that the judicial confirmation statute is designed to correct an emergency at as little cost as necessary until you can get to the voters on the overall issue.”

The council enacted 40 percent increases to wastewater and water rates earlier this year to create enough revenue to repay the wastewater treatment plant debt, plus any future financing for a new water treatment plant. Those rates kicked in Monday, and are unaffected by FitzMaurice’s ruling.

THE LEWISTON TRIBUNE

By JOEL MILLS of the Tribune Oct 4, 2018

Fitch Ratings: TRS Pension Change Unlikely to Stress Texas School Districts

Fitch Ratings-Austin-02 October 2018: A recent change to the assumed return of the Teachers' Retirement System of Texas (TRS) is not expected to materially affect local school districts' spending flexibility, according to Fitch Ratings.

The TRS board at its July 2018 meeting voted to lower the investment return assumption for the TRS pension plan to 7.25% from 8%. This move increases the plan's current $35.5 billion unfunded liability by $10 billion. If current statutorily fixed contribution rates are left unchanged, this adjustment extends the time needed to pay down the unfunded liability to 86 years from 32 years currently (assuming all other funding assumptions are met). The state currently contributes 6.8% of salaries, members contribute 7.7%, and school districts that do not contribute to social security contribute 1.5% of certain salaries.

The TRS legislative funding request for the 2020-2021 biennium includes an increase in the state contribution rate to 8.62% from 6.8%, at a cost of $1.68 billion for the biennium; this increase assumes no change in member or district contribution rates. TRS estimates that this increase would reduce the period needed to amortize the unfunded liability from 86 years to 31-35 years–consistent with the current 32 years.

The state likely will consider sharing the burden of increased contributions with plan members and local districts, in line with legislative reforms to the state's pensions in recent sessions. Fitch has consistently considered the risk that the state could increase district contributions to TRS in its assessment of each entity's expenditure framework, and believes most districts can accommodate a moderate increase without compromising flexibility. Nevertheless, Fitch will monitor consideration of this issue during the 2019 Texas legislative session and the potential impact to local districts' expenditure flexibility that would result from increasing pension contributions.

The lower 7.25% investment return assumption approved by TRS is a step in the right direction toward a more realistic assessment of the long-term funding burden that the state and local school districts will have to carry, although the rate remains above the 6% level which Fitch uses for assessing pension liabilities.

The TRS pension system is currently the 13th largest in the world. The pension trust fund ended fiscal 2017 with a market value of $147 billion. According to the TRS appropriation request, the system plans to distribute more than $26 billion in retiree benefit and healthcare payments to more than 400,000 retirees and healthcare providers during the 2020-2021 biennium.

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Fitch Ratings: North & South Carolina USPF Credits Can Withstand Fallout from Hurricane Florence

Fitch Ratings-New York-01 October 2018: Fitch Ratings expects credit ratings for Fitch-rated public entities in North Carolina and South Carolina affected by Hurricane Florence to remain stable despite challenges posed by significant property damage and unprecedented flooding.

The financial and budgetary strength of these municipalities can withstand credit risks associated with various recovery costs and revenue disruption in the aftermath of the hurricane. Fitch considers prospects for rebuilding sound based on the underlying demographic and economic characteristics of the affected areas, coupled with support from the federal government via the Federal Emergency Management Agency or FEMA, which has made federal disaster assistance available for affected counties in both states.

Hurricane Florence made landfall near Wrightsville Beach, NC two weeks ago, yet many parts of the Carolinas remain submerged and/or remain at risk to additional flooding. Thousands remain without power, and the heavy rainfall has led to crop damage and the discharge of untreated wastewater and other pollutants into drinking water supplies. Conditions on the ground have forced the closure of many roadways and businesses and the temporary dislocation of area residents. Property damage assessments are still preliminary and vary widely, with several reports indicating a total impact upwards of $50 billion. The damage caused by Florence is fairly nominal in relation to the roughly $20 trillion U.S. economy (about 0.3%) whose 2Q’18 annualized rate of growth registered 4.2% (according to IHS Markit, the North Carolina and South Carolina combine to account for 0.7% of U.S. GDP).

Fitch expects FEMA to shoulder much of the damage costs from the storm along with the National Flood Insurance Program (NFIP) and, to a lesser degree, the state governments and the private sector insurance market. For counties covered by the federal emergency declaration, federal aid will be made available to state and local governments and certain non-profit organizations for eligible costs incurred in connection with the protection of life and property, for public health and safety, debris clearance, and facility and equipment damage, among other outlays. Assistance to individuals can include grants for temporary housing and home repairs and low-cost loans to cover uninsured property losses.

For local governments in the Carolinas, general fund budgets are largely supported by property taxes which generally become due each year on Sept. 1 in NC (which was prior to Florence’s landfall) and on Jan. 15 in South Carolina, which allows time for property owners to address financial difficulties associated with the hurricane. As for mortgage-backed properties, lenders will make property tax payments when due from pre-funded escrow accounts established on the property owner’s behalf. Property taxes are generally based on valuations updated each January, with the upcoming valuation effective for the fiscal year that will not end for another 21-24 months for most local governments in each state.

Sales tax and other consumption-based fees and charges may experience a temporary decline. However, in most cases following the initial interruption, economic activity and related revenue are likely to increase, as residents and business purchase items related to repair and rebuilding and workers are hired to assist in this effort. The majority of Fitch-rated local government debt in North and South Carolina are backed by a general obligation pledge of the government or an appropriation-backed lease or rental payment payable from all legally available funds. Bonds backed by dedicated tax pledges are fairly uncommon across both states. Fitch-rated local governments in both states exhibit a high degree of credit quality with the majority of Issuer Default Ratings in the 'AA' or 'AAA' rating categories.

Utilities in the Carolinas experienced significant short-term disruption with over 900,000 total customer outages at the peak of the storm. The U.S. Energy Information Administration reports that 16% of the population in South Carolina was without power at one point. However, most customers were restored to power within a few days with assistance provided by standing mutual aid agreements among electric utilities that provide crew and equipment during natural disasters. Concerns remain related to widespread flooding and the potential for coal ash ponds at power plants to spill into rivers in both North and South Carolina. The coal ash ponds are being protected with additional temporary measures and the rivers closely monitored for any contamination. Longer-term, the public power and cooperative utilities in the region have the financial flexibility and liquidity to mitigate the risk of lost revenue and fund capital repairs until FEMA funding reimbursements are received.

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Fitch Ratings: California School Districts Brace for Budget Pressures

Fitch Ratings-San Francisco-01 October 2018: California school districts face a challenging budget environment when the next recession comes, though credit ratings should withstand said challenges according to Fitch Ratings in a new report.

Salaries and benefits make up about three-quarters of school general fund spending and many districts are already feeling the pressure to raise salaries due in part to California's high cost of living. Pension costs are also rising faster than expected revenue growth and will continue to do so at least through fiscal 2021. 'Declining enrollment experienced by some school districts will exacerbate the slowing of revenue growth and is only partially mitigated by the need for fewer teachers,' said Fitch Senior Director Karen Ribble.

How districts respond to current wage and pension pressures will heavily influence their options and ability to absorb revenue declines in future recessions. If districts are in a structural deficit spending position during economic expansion, gap-closing capacity is compromised. Conversely, if districts can maintain structural balance while contributing to reserves now, they will be better able to absorb the impact of revenue declines with less disruption to service levels and financial flexibility.

Consolidating schools is often a good cost-cutting option for districts with budgetary pressures stemming from declining enrollment. However, districts facing competition from charter or private schools make closing neighborhood schools counterproductive and exacerbate the enrollment problem as cutbacks can result in lower enrollment, which further reduces funding. These districts are likely to be particularly challenged during a downturn.

That said, Fitch expects the vast majority of its rated California school districts will keep their ratings intact through a downturn because it has already factored these forward-looking scenarios into its ratings.

'How Will California School Districts Fare During the Next Recession?' is available at 'www.fitchratings.com'

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Louisiana Environmental Impact Bond May Reduce Coastal Land Loss.

Bordered by beautiful wetlands along the Gulf of Mexico, Louisiana is a hub of transportation and industry. A pilot environmental impact bond could seed a set of wetland-restoration projects for the state. Environmental Defense Fund, Quantified Ventures, and their project partners are proposing to draw on funding from the Deepwater Horizon oil-spill settlement to make this happen.

Continue reading.

Conservation Finance Network

Kat Friedrich

September 25, 2018

Expert: PA Pension Funds Have Underreported Billions In Payments

An Oxford University professor tasked with tracking spending in Pennsylvania's pension system has concluded that the commonwealth's two largest public funds have underreported billions of dollars they paid to private investors.

The review was undertaken at the behest of a commission of lawmakers and state officials, who are trying to find ways to ease the massive debt these funds are carrying.

Between them, the State Employees Retirement System and Public School Employees Retirement System manage about $80 billion.

Sometimes they invest it with private equity firms. That can be lucrative, but the investments are typically riskier and more expensive than traditional ones, which has led state officials to question whether they're a waste of valuable resources.

Treasurer Joe Torsella said the commission has repeatedly requested records to figure out how much the pension funds pay private investors, but have largely been denied.

Now, Dr. Ludovic Phalippou, Assistant Professor of Finance at Oxford, estimates the funds have underreported the money paid to private equity firms by a third over the last decade. That's $3.8 billion the state didn't know about.

The commission's review of the funds is still ongoing, and Torsella said he's not necessarily saying SERS and PSERS should fully stop investing in private equity. But he does think transparency has to improve.

"One of the disturbing things I heard this morning was that the consultants who were brought in to help the commission do its work couldn't get access to the data on what the performance is and what we're spending," he said. "That's just unacceptable."

Mike Tobash, a Dauphin County Representative who's chairing the commission, said it's easy for pension discussions to seem remote from the daily work of funding state programs and getting state workers their retirement income.

But the size of the unfunded liability SERS and PSERS are carrying—somewhere around $70 billion—means the money to pay thousands of public pensions isn't there right now. So in order to get that money together, the state has spent years scraping the bottoms of lots of different financial barrels.

"We struggle with budgets as a result of the massive pension debt that we've got," he said. "Doesn't' it only make sense that we've formed this commission to make sure that the costs aren't exorbitant and that the returns are fair?"

Auditor General Eugene DePasquale expressed outrage at the money being spent on private investments, saying in a statement that he is "sick and tired of learning about fuzzy contracts that leave taxpayers holding the bag while Wall Street sharks get rich.”

He indicated he plans to take some form of action on the issue himself.

Governor Tom Wolf, too, expressed support for the pension commission taking “substantive measures to reduce fees.”

Reached for comment, spokespeople for both SERS and PSERS said the funds are working to reduce the amount of money that goes to private managers.

Earlier this year, the SERS board directed passed a motion directing its staff to request that investment managers of private equity funds and real estate funds adopt a widely used disclosure procedure known as Institutional Limited Partners Association, or ILPA.

However, spokeswoman Pamela Hile said SERS is still not tracking carried interest, which made up a significant portion of the unreported payments to private equity firms. She maintained, “our reporting process follows industry standards and is more transparent than many other state public pension plans.”

PSERS has gone slightly further to increase transparency. It has already adopted ILPA, and spokeswoman Evelyn Williams said the fund will be presenting its first-ever report tracking carried interest at next month’s board meeting.

Williams took issue with the Torsella’s characterization of the fund’s responses to information requests. She said PSERS ignored none of the requests, and “contrary to today’s comments, in fact we have cooperated with the Commission and Treasurer requests for information.”

90.5 WESA

Pittsburgh’s NPR News Station

By Katie Meyer • Sep 21, 2018

Georgia Municipal Association Policy Opposes Annexing Territory of Existing Cities.

The Georgia Municipal Association has formally come out against taking land from an established city to form another, four months after Gov. Nathan Deal signed legislation allowing Eagle’s Landing to seek cityhood by taking half of Stockbridge.

The group’s Legislative Policy Council earlier this month adopted a policy stating its support for citizens seeking more responsive representation, but said “portions of existing municipalities should not be de-annexed to create municipalities.”

The issue has been central to the debate over the desire of the Eagle’s Landing community to become Henry County’s fifth city. After being given the go ahead from the Legislature and Deal earlier this year to hold a referendum, Henry voters will decide Nov. 6 whether to approve de-annexing about half of Stockbridge and combining the territory with parts of unincorporated Henry to form the new city.

[Continue reading.](#)

The Atlanta Journal-Constitution

By Leon Stafford

Sept 21, 2018

[Indiana Finance Authority OKs New Toll Road Deal, Rate Hike.](#)

Indiana Finance Authority approves a new deal with the vendor operating the Indiana Toll Road allowing 35 percent fee increases for large trucks as part of Gov. Eric Holcomb's plan to pump an additional $1 billion into infrastructure.

INDIANAPOLIS (AP) — The board of the Indiana Finance Authority unanimously approved a new deal Thursday with the vendor operating the Indiana Toll Road, allowing 35-percent fee increases for large trucks as part of Republican Gov. Eric Holcomb's plan to pump an additional $1 billion into infrastructure projects around the state.

The rate hike takes effect Oct. 5 and the state would receive $400 million that same day from the Indiana Toll Road Concession Co. The rate increase applies to vehicles with three or more axles.

Indiana would receive a total of $1 billion over three years. Indiana Public Finance Director Dan Huge told the board the new deal comes with a letter of credit, meaning banks have guaranteed Indiana will receive its future payments.

Holcomb did not attend the meeting. He was on a trade mission to Italy on Thursday.

The infrastructure plan Holcomb announced earlier this month would earmark $600 million to speed up completion of the Interstate 69 extension in southern Indiana; $190 million for projects on U.S. Routes 20, 30 and 31; $100 million to boost rural broadband access; $90 million for improving hiking and biking trails; and $20 million to lure new direct flight routes to the state's airports.

Democrats say the new Toll Road rates amount to a tax increase for the trucking industry, but Holcomb has stressed that the new fees won't apply to passenger cars and would bring Indiana in line with what nearby states charge.

The trucking industry also has criticized the rate increases. Gary Langston, president of the Indiana Motor Truck Association, told the South Bend Tribune that they follow a large increase in state fuel taxes that went into effect last year. The combination of higher tolls and fuel taxes on truckers will ultimately hurt consumers and businesses since nearly all products travel to Indiana via trucks, Langston said.

Langston also predicted trucks will bypass the Toll Road, resulting in more congestion on toll-free highways and the possibility of more accidents.

U.S. News & World Report

Sept. 20, 2018, at 8:06 p.m.

Utilities Helped Puerto Rico Fix Its Power Grid. Now They Face Hefty Tax Bills.

When nearly the entire power grid of Puerto Rico was knocked out by a pair of ferocious hurricanes last year, utility companies from across the United States sent crews and equipment to help.

It was a power emergency on a scale rarely seen before, and companies spent tens of millions of dollars to mobilize. The utility in Sacramento, Calif., sent 30 workers and a dozen trucks. Ameren, which serves over two million customers in Missouri and Illinois, sent 225 workers. New York dispatched workers on at least five deployments to repair power lines and assess damaged substations. Florida Power & Light sent more than 100 trucks, several tons of equipment and 800 employees, many of whom spent Thanksgiving and the winter holidays working 16-hour days.

Though their costs are expected to be reimbursed by the federal government, the companies were not earning a profit. So it was with astonishment that, over the summer, some of the utility companies that had sent aid crews opened letters from the towns where they had worked in Puerto Rico: bills demanding millions of dollars in license and construction taxes.

Continue reading.

The New York Times

By James Glanz and Alejandra Rosa

Sept. 26, 2018

Holdout Bondholders Join Puerto Rico Sales Tax Debt Restructuring.

Sept 21 (Reuters) – Two major holders of Puerto Rico bonds that opposed a restructuring deal for the bankrupt U.S. commonwealth's Sales Tax Financing Corporation (COFINA) revenue bonds are now part of the agreement, the island's federally appointed oversight board announced on Friday.

The board said Aurelius Capital Master Ltd and Six PRC Investments LLC, an affiliate of Monarch Alternative Capital, have opted to support the deal. Both own significant amounts of COFINA senior and junior bonds, but mostly own Puerto Rico general obligation (GO) bonds.

The move ends opposition from the island's Ad Hoc Group of GO Bondholders to a COFINA debt restructuring plan, according to the board. The three-member group, which includes Aurelius and Monarch, objected to a COFINA settlement framework in bankruptcy court in June, calling parts of it unlawful. GO and COFINA bondholders have long debated the ownership of Puerto Rico's future sales tax revenue.

Claims by Aurelius and Monarch in a lawsuit filed in federal court in 2016 challenging COFINA's constitutionality will also be dropped, under terms of the agreement.

"The Amended and Restated Plan Support Agreement represents the restructuring of nearly 24 percent of Puerto Rico's crushing debt, and provides the Commonwealth of Puerto Rico a 32 percent reduction in COFINA debt and more than $17 billion in debt service savings," the oversight board said in a statement.

The deal is expected to be presented to a U.S. judge overseeing Puerto Rico’s bankruptcy case next month, the statement added.

Puerto Rico has been in bankruptcy court since May 2017 trying to restructure about $120 billion of debt and pension obligations.

Other parties to the COFINA deal, which would be Puerto Rico’s first debt adjustment plan under the bankruptcy to seek court approval, include bond insurance companies, municipal bond funds, and holders of bonds sold exclusively to island residents.

Outside of the bankruptcy case, Puerto Rico has secured overwhelming creditor approval for a plan to restructure its Government Development Bank debt.

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

SEPTEMBER 21, 2018

Fitch Ratings: Prop 6 Highlights Impact of Voter Initiatives on CA

Fitch Ratings-New York-24 September 2018: An initiative on the California ballot in November highlights the extent to which voter initiatives can limit the state of California’s operating flexibility, according to Fitch Ratings.

Proposition 6 would repeal legislatively authorized tax increases dedicated to transportation improvement projects and make it more difficult for the state to increase transportation related fees and taxes in the future. The initiative uses the ballot to counter revenue raising decisions made by the legislature to support significant spending actions, illustrating the ways in which California voters can directly affect state operations. Adding a requirement to seek voter approval of transportation fee and tax increases could also increase the likelihood that infrastructure spending demands, often funded through use of dedicated funds, may to a greater extent compete with general operating needs.

Proposition 6 would repeal the tax increases incorporated in the “Road Repair and Accountability Act of 2017” and require voter approval for increases in gas and vehicle taxes going forward. Voter approval would be in addition to the legislative two-thirds vote that is already required to increase taxes and fees. The Road Repair and Accountability Act, passed as Senate Bill 1 (SB1), increased transportation-related taxes and fees and dedicated the increased revenue to improving the state’s transportation infrastructure. Voters further protected the revenues by passing Proposition 69 in June 2018 to constitutionally limit spending of SB1 revenues to transportation. The state estimates SB 1 will generate over $5 billion annually, allowing the state to direct an estimated $54 billion to transportation improvement projects over the next ten years. Approximately two-thirds of the money is to be directed toward highway and road repairs, with the balance applied to other programs, including mass transit.

Proposition 6, which is contentious but has received support in a high-profile election year, highlights the impact of voter initiatives on California’s operating flexibility. Passage of SB1, albeit along partisan lines in the Democratically- controlled legislature, represented a breakthrough in funding for backlogged infrastructure projects that had accumulated through a period of budget shortfalls and a deadlocked legislature. Repeal of the SB1 tax increases would likely cause delays or cancellation of projects, even as supporters of Prop 6 indicate that funding for state transportation projects can be found elsewhere in the budget. The fiscal 2019 budget includes approximately $35 billion in transportation funding, of which approximately $12 billion comes from the state, an amount which has increased by approximately 75% over the last two years with the additional SB1 funds.

A requirement for voter approval of future tax increases may factor into Fitch's assessment of the state's operating resiliency related to its ability to raise revenues. As with all states, California has an unlimited legal ability to raise revenues, even with a requirement for a two-thirds vote in the legislature. If Proposition 6 passes, the state would continue to have extensive control over its revenues, but the voter approval requirement of future transportation tax increases would create a limit on at least a portion of that revenue raising ability. Additional extensions of voter approval requirements for state revenue increases could erode the state's revenue framework and ultimately its ability to manage its budget in response to changes in the economy.

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[Massive Study Shows California Schools Face Bleak Financial Future.]

Study concludes that California needs to raise overall school spending by 32 percent.

A team of researchers managed by Stanford University and Policy Analysis for California Education (PACE) recently released a massive study of California schools' successes and shortcomings.

It concluded that for California's elementary and secondary schools to reach academic performance goals, the state should expand education into early childhood, prior to kindergarten, and raise overall school spending by 32 percent.

The report said that "while public schools in California spent about $69.7 billion on school operations in 2016-17, an additional $22.1 billion — 32 percent above actual spending — would have been necessary for all students to have had the opportunity to meet the goals set by the state Board of Education."

One could question the premise that spending more — a lot more — would have the desired effect. Nationwide school finance and academic data reveal almost no correlation between the level of per-pupil spending and outcomes as measured by the federal government's nationwide testing.

States that spend less than California often do better on those tests. Those that spend more — even much more — don't appear to be doing any better than California, indicating that money is not a panacea for this state's low performance. More money would make a difference only if it reaches the classroom in the form of better instruction.

Getting such an increase, moreover, would be a very heavy political lift.

A $22.1 billion increase in annual school support would require a 100 percent increase in state sales taxes, a 25 percent increase in income taxes or a more than one-third increase in property taxes.

If anything, the financial future of the state's school districts is headed the other way, as a new report from Moody's Investors Service, which charts trends in public and private finance and rates debt-worthiness, catalogs.

Moody's sees California schools facing "a confluence of financial complications over the next decade," to wit:

Schools have seen sharp increases in state and local revenue — averaging 13.8 percent a year for the last half-decade — thanks largely to a booming economy, rising taxable-property values and a state income-tax increase. Going forward, however, Moody's sees school spending rising by less than 3 percent a year, just about the rate of inflation.

· Enrollment has dropped slightly over the past decade, even as the state's population increased, thanks to declining birth and immigration rates. Over the next decade, state officials expect a steeper decline, which will impact district financing largely based on enrollment.

· School-district pension costs are escalating rapidly as both the California Public Employees Retirement System and the California State Teachers Retirement System seek more money to attack their large "unfunded liabilities." The rising pension bills will largely consume the lower level of state aid also being projected.

We're already seeing real-world examples of the trends in Moody's report. Despite the large increases in school revenue over the last half-decade, many districts, especially those with declining enrollments, are struggling to balance their books.

Sacramento Unified, for example, just saw its budget rejected by the county superintendent of schools because it dipped into reserves meant to cover pension costs to finance a hefty raise for its teachers.

Los Angeles Unified faces immense deficits, in part because it is seeing a steep decline in enrollment due to both demographic factors and a strong shift of students into charter schools.

The next governor and the Legislature will have to stabilize current school finances before giving any thought to the 32 percent increase advocated in the Stanford/PACE report.

SAN JOSE MERCURY NEWS

by DAN WALTERS, CALMATTERS

PUBLISHED: September 30, 2018

S&P Medians And Credit Factors: California Schools

California's school district credit quality remains strong, in S&P Global Ratings' view, supported by a dynamic economy that has been one of the nation's top performers for the past several years. S&P Global Ratings maintains public ratings on 650 school districts (roughly 70% of the statewide total).

Continue Reading

Sep. 18, 2018

UBS Investors Dealt Setback Over Puerto Rico Fund Losses.

Judge bars investor class action over closed-end fund losses

Investors who lost money on UBS Group AG mutual funds stuffed with Puerto Rico government bonds can't sue as a group, a federal judge said Monday, a setback in their efforts to collect from the Swiss financial services giant.

The ruling by Judge Sidney H. Stein of the U.S. District Court in New York means that investors in closed-end mutual funds managed by UBS Financial Services of Puerto Rico Inc. must pursue their claims individually through arbitration, a more difficult path to recouping damages, rather than proceeding as a single, certified class.

Investors have claimed that UBS brokers told them their mutual funds were safe when in fact their assets were heavily concentrated in just a few Puerto Rican municipal bonds and the funds had used leverage to improve returns.

Judge Stein said the plaintiffs' circumstances and their decisions to buy and sell were so dissimilar that their claims needed to be adjudicated case-by-case. Attorneys for the plaintiffs didn't respond to a request for comment.

A decline in Puerto Rico bond prices starting in 2013, when the U.S. territory's fiscal crisis came into focus, drained value from the mutual funds and sparked hundreds of claims against UBS. Prices on some securities have declined further since Puerto Rico embarked on a court-supervised restructuring of its $73 billion debt load last year.

UBS said in its second-quarter report that mutual-fund customers had claimed $2.6 billion in damages through arbitration complaints arising from the downturn in Puerto Rican bonds. Of those complaints, $1.6 billion worth have been resolved through settlements, some of which were for millions of dollars, according to the regulatory filing.

Investors said UBS failed to structure the mutual funds to preserve capital as advertised and reaped millions of dollars in fees by selling and trading mutual-fund shares. UBS largely controlled the market for those shares, making them illiquid and prone to outsize price swings, according to investor complaints.

UBS has said investors received excellent returns for years that often exceeded the broader bond market.

UBS paid roughly $34 million in 2015 to settle accusations of failing to supervise a former broker who had customers invest borrowed money into the bond funds. The U.S. Securities and Exchange Commission separately sued the former broker, Jose Ramirez Jr., in federal court. He was fired by UBS in early 2014.

The Wall Street Journal

By Andrew Scurria

Sept. 18, 2018 3:40 p.m. ET

Port of Wilmington Uses P3 Concession to Develop Port Facilities.

The State of Delaware and a subsidiary of Gulftainer Company Limited ("Gulftainer") have finalized a concession agreement for the operation and further development of the 100-year-old Port of Wilmington ("Port").

While the concession agreement signed on September 18, 2018 is not publicly available, it is expected, based on deal terms described in Port documents submitted in support of approval of the P3 transaction,[1] that the agreement grants Gulftainer exclusive rights to manage the Port for a 50-year term. In return, Gulftainer agrees to invest up to $584M in the Port in the first 10 years to improve the Port's cargo terminal facilities, $411M of which will be used to develop a new 1.2 million TEU (twenty-foot equivalent units) container terminal. Gulftainer will pay concession fees to the State based on cargo volume along with periodic adjustments for inflation. These fees could reach $13M by the tenth year of the concession.[2] At the end of the concession, Gulftainer must hand the Port facilities back with the capacity to handle specified minimum service and tonnage volume requirements.

In May 2017, Diamond State Port Corporation ("DSPC"), the state entity that owns and operates the Port, issued an RFQ seeking private partners to develop, finance and/or operate port-related infrastructure.[3] After evaluating submissions, DSPC signed a non-binding letter of intent with Gulftainer in December 2017.

Continue reading.

By Andrée Blais and Racquel Muindi on September 27, 2018

Infra Insight Blog

Nossaman LLP

Public Finance Watchdog Gives Illinois an "F"

States are putting taxpayers on the hook for more and more debt, with Illinois among the state's with highest tax burden per taxpayer in the nation, according to the latest report from public finance watchdog Truth In Accounting.

Despite the improving national economy, some states are in worse shape now than they were shortly after the end of the Great Recession. Truth In Accounting's ninth Fiscal State of the States report reviews states' comprehensive annual financial reports (CAFR) for the overall financial condition for all 50 states. From there, TIA offers up a letter grade for each state, from "A" to "F," where Illinois lands.

"Based on our grading methodology, three states received A's, seven received B's, 12 received C's, 18 received D's, and 10 states received failing grades," The report said.

Illinois was the third-worst state in debt per taxpayer at $50,800. That's $400 more than the previous year's report. Only Connecticut, at $53,400 debt per taxpayer, and New Jersey with $61,400 debt per taxpayer, were worse than Illinois.

Truth In Accounting considers Illinois one of five Sinkhole States that don't have enough assets to cover their debt.

"Illinois only has $28.8 billion of assets available to pay bills totaling $244.9 billion," according to the report.

The other four Sinkhole States were Massachusetts, Kentucky, Connecticut and New Jersey.

At the other end of the spectrum were the five Sunshine States, with Alaska leading the country with a per-taxpayer surplus of $56,500. The other were North Dakota ($24,900 surplus per taxpayer), Wyoming ($19,600), Utah ($4,400) and South Dakota ($3,100).

TIA Research Director Bill Bergman said some states – like Illinois – are in worse shape than they were shortly after the Great Recession.

"Given that we've had a recovery since then, and a significant one in the stock market, the fact that Illinois' financial condition has worsened since 2009 is even more of a concern," he said.

Illinois keeps getting worse, Bergman said, with a per taxpayer debt liability of $29,000 in 2009 ballooning to $50,800 in TIA's most recent report.

Bergman said states that are running surpluses have something in common.

"The good states have a record of funding their pensions and funding their [other post-employment benefits] in a timely way that doesn't kick the can down the road," he said.

While credit rating agency reports are for bond holders, TIA's rating is designed to show taxpayers what's going on, Bergman said.

"Our review is something that's guided by the concern for the common citizen and the average taxpayers, whereas credit ratings focus on bond holders," Bergman said.

Moody's has Illinois' general obligation bonds rated at Baa3 with a stable outlook, S&P at BBB- with a stable outlook and Fitch at BBB with a negative outlook, all just above junk status.

Some ratings reports acknowledge Illinois' unfunded liabilities and structural debt, but they change the outlook from negative to stable because of things like tax increases. In the summer of 2017, Illinois' ended a more than two-year budget impasse by increasing income taxes by $5 billion over the governor's veto. Credit ratings agencies hinted at a junk status rating if there wasn't a budget.

"[Governments] have the power to tax and that's definitely something worth respecting, but from the point of view of the average taxpaying Joe or Jane, that's not necessarily the source of financial strength," Bergman said. "In fact, they're relying on the average taxpayer to make the bonds whole with the power of tax and the power of force."

The TIA report also shows that because of new financial reporting rules requiring all unfunded post-employment benefits to be reported, Illinois' hidden debt was among the worst in the country at $36.1 billion, for a total of $52.5 billion in promised benefits.

Another area Illinois failed at were filing comprehensive annual financial reports within 180 days. Illinois was 258 days tardy from the end of its fiscal year, the report said. Illinois was tied for fifth worst in the nation there.

Bergman said he wants to bring awareness to taxpayers about the true cost of their government's structural debt.

"This is hard stuff," Bergman said. "A lot of people, their eyes just fog over. We're trying to help them understand it."

While Illinois is among the worst states, the report notes that the entire country is in financial trouble.

"States in general do not have enough money to pay all of their bills," the report said. "Based on our latest analysis, the total unfunded debt among the 50 states increased by $53.4 billion to more than $1.5 trillion in fiscal 2017. Most of this debt comes from unfunded retiree benefit promises, such as pension and retiree healthcare debt. This year, pension debt accounts for $837.5 billion, and other post-employment benefits – mainly retiree healthcare liabilities – totaled $663.1 billion."

The Fiscal State of the States report can be found at StateDataLab.org.

WBGZ Radio

By Greg Bishop – Illinois Radio Network

9/27/2018

Fitch: California Public Power Utilities Face Carbon Neutral Target in 2045.

Fitch Ratings-Austin-13 September 2018: California has ratcheted up its statewide environmental goals with the passage of the California 100% Clean Energy Act. The legislation, signed by the Governor earlier this week, is the latest step in the state's ambitious transformation of its energy supply through the implementation of additional constraints on utility power supplies.

Fitch Ratings expects the credit quality of Fitch-rated public power utilities in California to remain strong over the medium term, although compliance with the legislation will require careful resource planning and heighten the importance of meaningful industry developments in areas that extend beyond individual publicly owned utility (POU) control. Advances in generation and storage technologies, the pace of electrification in the transportation sector, and potential regional market expansion and design changes will be crucial to the state's success in reaching its targets.

California's 100% Clean Energy Act requires utilities to achieve 60% of their energy supply from renewable sources by 2030, which is an increase from the 50% renewable by 2030 mandate set by legislation passed as recently as 2015. Significantly, the legislation also requires 100% of a retail utility's energy supply to be provided by renewable or carbon-free energy by 2045, the same goal as the state of Hawaii, which previously held the most ambitious renewable standard.

POUs must make long-term resource decisions while factoring in the requirements of the new legislation, the limitations of existing storage technologies and carbon-free generation resources, and near-term system needs. Decisions regarding the development of additional natural gas-fired resources must now be evaluated under the legislatively imposed deadline of 2045, which shortens the timeframe over which to recover the investment.

MOUNTING REGULATIONS ADD TO LONG-TERM INVESTMENT UNCERTAINTY

The 100% Clean Energy Act was proposed during the 2017 legislative session so the industry was prepared for it or a similar bill to be enacted. The act's requirements are in line with the trajectory established by previous mandates. However, this legislation further heightens investment uncertainty for natural gas-fired generation. The rapid decline in energy that can occur from both wind and solar requires a corresponding generation resource that can ramp-up energy production in minutes to provide grid stability and service reliability. One such option is natural-gas generation given its flexibility and fast start capabilities. Several utilities have delayed or changed planned or expected investment in natural gas resources given the uncertainty regarding the state's unfolding environmental mandates.

Los Angeles Department of Water and Power (LADWP; power revenue bonds rated 'AA'/Stable Outlook) placed its multi-decade local generation investment plan on hold in 2017. Since 2011, LADWP has been investing capital to reconstruct three of its local gas-fired generation facilities. In order to comply with state regulations, the plants must be rebuilt to cease using ocean water for once-through power plant cooling purposes by 2029 with a total estimated cost of over $2.0 billion. The three power plants account for 70% of the 4,736MW net generating plant capacity owned by LADWP. LADWP's pause in the long-term investment is intended to provide time to analyze the need for the continued investment in local gas-fired generation in light of other alternatives, including the increased availability of renewables in the state and the greenhouse gas emissions of various alternatives.

Glendale Water and Power (electric revenue bonds rated 'A+'/Stable Outlook) has also been planning the replacement of its older gas-fired generation unit, the Grayson Power Plant. The city's integrated resource plan identified the rebuild of the Grayson power plant on the existing site with approximately 200 MW of new, efficient natural gas-fired capacity as the city's best option at an estimated cost of just under $500 million. However, earlier in 2018, Glendale decided to place the repowering decision on hold while it solicited alternative proposals. Similar to LADWP's reasoning, Glendale wanted to explore renewable and non-carbon emitting alternatives.

In both cities, the alternative exploration process was initiated by community requests and City Council direction ahead of the passage of the 100% Clean Energy Act but both actions reflect the climate of uncertainty in which utilities are attempting to make long-term investment decisions. While it appears that natural gas-fired generation will need to continue to play a significant role in the state's power supply until other technology developments occur, the 2045 deadline now puts a hard limit on the potential useful life of this investment, with the ongoing risk that subsequent state legislation moves the target date forward in the future.

THE FATE OF THE INTERMOUNTAIN POWER PROJECT REPOWERING

Certain POUs in California are involved in a multi-year process to implement a repowering of the Intermountain Power Project (IPP), a 1,800 MW coal-fired generation plant located in Utah with a 490 million 500 kV direct current transmission line into California. California utilities are contracted to purchase the output of the IPP coal plant through 2027. IPP represents one of the last sources of coal-fired generation for California's POUs following the recent divesture of the San Juan power project in New Mexico and the Navajo Generating Station in Arizona. The repowering was designed to allow the California participants to comply with state legislation enacted in 2006 that limits the use of coal-fired resources in the future by repowering the resource as a combined cycle natural gas-fired plant. Project participants have worked through a multi-year process towards this goal. The repowered IPP may still provide valuable capacity and reliability benefits prior to 2045 and the IPP transmission line into California provides valuable import capability for out-of-state renewable energy.

STRONG CREDIT QUALITY BUT WITH COMPLIANCE COST RISKS

California's POUs have managed the challenge of mandated energy targets thus far and have exhibited strong credit quality due largely to the timeliness of cost recovery and the preservation of margins. Fitch expects this success to continue over the medium term. It is noteworthy, however, that the rate impact to consumers during the initial years of regulatory compliance was materially dampened by the corresponding decline in the cost of renewable energy and natural gas commodity prices during the same period of time. Future compliance costs may not experience the same buffer.

Future compliance costs could also be significantly higher than recently observed. While the 100% Clean Energy Act is just one in a succession of mandates levied on the state's POUs that began over a decade ago, the legislation further constrains future resource options. The confluence of the 2045 deadline and reliance on still emerging technologies raises the concern that utilities will be hampered by sizable cost increases while simultaneously challenged to maintain the high reliability levels that ratepayers have come to expect. Over the longer term, the preservation of credit quality will continue to depend upon the timely recovery of those costs and maintenance of strong financial margins during any potential operational challenges.

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AT&T, City of LA Explore Smart Cities Public-Private Partnership.

AT&T and the City of Los Angeles are in talks regarding a public-private partnership to make LA one of the smartest cities in America. AT&T's role in the partnership is the provision of IT technology and support for the deployment of small cell technology to address the problems that matter most to the people that live, work, and visit there.

To help the city solve issues related to road traffic, natural disaster preparedness, and public safety, AT&T said it's exploring the deployment of a variety of smart city products ranging from digital kiosks to structural monitoring to digital infrastructure. The deployment of these technologies will benefit all neighbourhoods in Los Angeles, helping to provide better connectivity to neighbourhoods that have been traditionally left behind in the digital divide, the company said in a press release.

To enhance existing voice and data capacity in LA, the company said it will be looking to deploy a greater number of small cells more rapidly to expand its existing network and begin deployment of a 5G network.

Small cell technology also helps bring increased capacity to first responders. This is in addition to the increased coverage and capacity that FirstNet is providing to the LA public safety community through the network's Band 14 spectrum build and integration of assets from the Los Angeles Regional Interoperable Communications System.

Thursday 13 September 2018 **|** 13:12 CET **|** News

Bank of Los Angeles: No Plan Just Promises

LA WATCHDOG–Charter Amendment B: Shall the City Charter be amended to allow the City to establish a municipal financial institution or bank?

Over the next two months, we will be experiencing a full court press by the well-financed proponents of Charter Amendment B, the pet project of City Council President Herb Wesson, promising billions in savings and benefits to the City.

But these pie-in-the-sky claims have not been documented, substantiated, or made available to the public because the City does not have a business plan for the proposed City owned Bank of Los Angeles.

Rather, the fiscally irresponsible politicians who occupy City Hall want us to give them a blank check to form a bank that will eventually require a cash investment of $1 billion from the City to capitalize the bank, to establish the required loan loss reserves, and to pay for the new bank's "exorbitant" start-up costs.

Again, there is no plan to raise the $1 billion in capital, especially since the City's two underfunded pension plans would be prohibited from making such a risky, related party investment, contrary to comments made by several Councilmen.

The proponents claim that the City paid $170 million in banking fees last year, implying that the Bank of Los Angeles will eventually save the City tens of millions. But this will require the Bank to develop and manage sophisticated data processing systems, a highly unlikely prospect given the City's poor record of developing and operating management information systems.

For example, we certainly experienced the pain associated with the disastrous rollout of the DWP billing system.

Furthermore, it is unlikely that the Bank of Los Angeles will be as efficient as Bank of America or JP Morgan who have some of the most sophisticated, secure systems in the world staffed by experienced personnel and programmers.

The proponents claim that the "big banks receive billions in City deposits virtually interest free." But according to reports from the Office of Finance, banks deposits are only about 1% of the City's $9 billion investment portfolio.

The proponents claim that the City paid $1.1 billion in interest to "big banks" and investors. But there is no evidence to support this claim, especially given that the City is budgeting only $28 million in interest expense on its outstanding General Obligation Bonds. Of course, the City's three proprietary departments (DWP, the Port of Los Angeles, and LAX), the Sewer Department, and other special revenue departments have outstanding bonds which require interest payments. But $1.1 billion in interest expense appears to be a vast overstatement.

The supporters of the Bank of Los Angeles anticipate that the bank will invest in City debt, resulting in huge savings for the City. While the savings are probably overstated given the need for the proposed Bank of Los Angeles to charge high interest rates to cover its anticipated City mandated payroll and overhead, the bulk of the savings will go to the proprietary departments or the capital-intensive Bank, not to the City's treasury.

There is also the risk that the proposed Bank will be financing its investment in long term bonds with short term deposits, a recipe for disaster if interest rates should happen to increase. In that case, the Bank, its capital, and its deposits would be exposed to significant losses.

The Mayor and the City Council will tell us that the proposed Bank of Los Angeles is the answer to our prayers, overlooking the risks of bad loans and investments and swings in interest rates. Maybe that is why they have not developed a plan, unlike the Bay Area governments who are considering a public bank.

It is no wonder that the City Legislative Analyst recommended against establishing the Bank of Los Angeles.

The same City Hall politicians that gave us unbalanced budgets, a Structural Deficit of $1 billion a year, unfunded pension liabilities of $15 billion, and lunar cratered streets want us to give them a blank check that will allow them to raid the cash reserves of the City and its proprietary and special revenue departments.

We would be crazy to give a blank check for a City owned bank that would be controlled by the Mayor, the City Council, and their cronies.

Vote NO on Charter Amendment B.

JACK HUMPHREVILLE 10 SEPTEMBER 2018

Highland Park Joins Three Other Suburbs in Forming Liability Insurance Cooperative.

The City of Highland Park is joining with the villages of Buffalo Grove, Elk Grove Village and Hoffman Estates to form a Suburban Liability Insurance Pool that is expected to save the city between 13 and 37 percent over current insurance costs.

Buffalo Grove proposed forming a pool among similar communities with similar loss histories in 2017. Municipal administrators have been meeting for more than a year with the chosen broker, A.J. Gallagher, to define the structure for a possible cooperative — a first step toward estimating coverage costs and quantifying potential savings.

The Highland Park City Council Sept. 12 approved membership for a three-year term starting Jan. 1. The Buffalo Grove Village Board is scheduled to consider the matter Sept. 17.

According to the city, the Suburban Liability Insurance Pool (SLIP) will maintain a self-insurance loss fund to cover that portion of any claim that exceeds the municipality's deductible but is not yet covered by the pool's insurance carrier.

Funds in the pool's own loss fund will be invested and can earn interest income. Surplus funds can be returned to member municipalities in proportion to their contributions once an actuary has determined the funds are no longer needed to pay claims.

"Right now, if you cut a $100,000 check to your insurance company and they only pay out $10,000, they're not giving any of the money back," said Tia Incapreo, a Gallagher representative, during an Aug. 27 presentation to Highland Park city council members. "Being part of a cooperative like this allows you to have more control over your insurance program.

City Finance Director Julie Logan said insurance premiums have tended to go up each year regardless of claims experience.

"Currently, we go to market by ourselves basically and they just kick us up by five percent every year," Logan said.

She said some of the pools managed by Gallagher have gone for five and 10 years without increases.

Highland Park's fixed annual liability insurance costs are expected to drop from about $407,000 this year to about $222,000. In addition, the city would make a contribution to the pool's loss fund that could be as high as $132,000 but is expected to be around $33,000.

The Chicago Tribune

by Karen Berkowitz

September 14, 2018

The 'Iron Lady' Trying to Fix Puerto Rico's Money Problems.

Facing down critics from all sides, Natalie Jaresko has broad powers to revamp the island's

economy; 'something has to change'

Natalie Jaresko has faced almost constant criticism since taking the helm of Puerto Rico's federal oversight board 18 months ago. Investors and politicians on the mainland attack her for pushing reforms too slowly, while those on the island blast her austerity measures and criticize her $625,000 annual salary. Lawyers and bankers involved in the restructuring—all men—call her blunt and brusque.

"I'm getting used to it," said Ms. Jaresko, 53, who restructured Ukraine's finances in 2016 as that country's finance minister and now is looking to do the same in Puerto Rico. "With all due respect, the challenges in this situation are as great, or greater than, in Ukraine, which is much larger and has been attacked and occupied by Russia."

The project to revamp Puerto Rico's economy is at a critical juncture as the board shifts from fact finding and economic forecasting to actually enacting the debt restructurings and structural reforms needed to stabilize the island's financial health. Ms. Jaresko aims to install policies she hopes will reverse more than a decade of economic stagnation on the island, but such measures are politically unpopular, especially after the devastation caused by Hurricane Maria last year.

Continue reading.

The Wall Street Journal

By Matt Wirz

Sept. 14, 2018 9:00 a.m. ET

Council Members Told Nothing Will Change if Gary Sells, Then Leases Back, its Police Headquarters.

Financial advisers who are putting together an agreement allowing Gary city government to sell its Public Safety Building, then lease it back tried Wednesday to reassure Common Council members that the deal would not change anything about the way the city operates.

Brandon Coleman and Jimmy Shanahan, municipal advisers working to put together the deal that Common Council members will be asked later this year to approve, said the intent is to allow city government to raise up to $40 million, which would be used in upcoming years to pay municipal government bills.

Council members last month approved a broad outline for a sale and lease-back of the Public Safety Building at 555 Polk St. Specific details of the transaction have yet to be put together, which is why Coleman and Shanahan were before the council's finance committee to explain how things are progressing.

Coleman said the city followed up last month's council vote of approval by sending out Requests for Proposals to some 20 financial institutions to gauge interest in the concept. Nine of those institutions expressed interest, and now talks are taking place between a three-member committee of city officials chosen by Mayor Karen Freeman-Wilson and those banks that could wind up buying the bonds that would produce money for Gary.

"It won't matter that we say we want to raise $40 million if no one out there wants to do this," Coleman said.

Selling bonds would create debt for Gary government in future years and Coleman said the plan originally was to devote the city's share of proceeds from the Majestic Star Casino to guarantee the debt. Coleman said city officials are now confident that local income tax proceeds will provide enough – allowing them to use casino monies for other future projects.

Shanahan said the terms of the deal being put together likely would state that upon the full repayment of the fundraising bonds, ownership of the Public Safety Building would revert back to Gary municipal government.

Even during the years that debt existed, the title to the property would indicate the structure being owned by the Gary Building Corp., an entity to be created for whomever winds up buying the bonds.

Police Department will not be at risk at any point in the future of being evicted from their longtime headquarters, officials said.

"If the Building Corporation defaults on the bonds, the city will not lose use of the facility," according to a memorandum Shanahan presented to council members. "The facility is not being mortgaged or pledged as security to the repayment of the bonds."

Shanahan's memo also stated, "no property taxes will be raised to make lease payments and debt service on the bonds."

Councilwoman Rebecca Wyatt, D-1st, said she is skeptical that taking on additional debt to repay bonds will somehow help Gary municipal government get out of debt over the long-term.

"I don't have a lot of confidence we can do this," Wyatt said. Councilwoman LaVetta Sparks-Wade, D-6th, agreed, saying she fears what could happen if the city can't pay the lease.

Mayoral Chief of Staff Dayna Bennett said the sale-and-lease back transaction is part of an overall play by which the city will be engaging in cost-cutting measures meant to reduce government expenses while also increasing the amount of money available to the city.

Some of those changes will become evident as soon as October, which Bennett said will be when the full Common Council will be asked to consider a series of fees the Fire Department would charge to increase the amount of income it can produce for the city.

"We're going to see the gap shrink in the amount of money we're short of paying our bills" Bennett said.

Coleman said this is all part of a long-range plan to bolster Gary's financial status. "The adage of 'you can't borrow your way out of a financial problem' is true," he said. "But if we don't develop a plan that brings more revenue into Gary, then we might as well all go home and just give up."

The Chicago Tribune

by Gregory Tejeda

September 14, 2018

Gregory Tejeda is a freelance reporter for the Post-Tribune.

[Wells Fargo Bolsters Public Finance Team on Both Coasts.]

Wells Fargo Securities, the investment banking and capital markets business of Wells Fargo & Company (NYSE: WFC), has made two additions to its Public Finance team: Tom Wynne has joined the company and will lead a new housing financing initiative in the West, and Michael Colton has joined the company to support the municipal finance business in New York.

Based in Los Angeles, Wynne joins Wells Fargo as a director in the Public Finance Housing group. His focus includes multifamily housing deals, land-secured financing, and general government transactions in the company's Western region. He previously led business development with municipal bond issuers in the Western Region at Morgan Stanley in Los Angeles. Wynne earned an MBA from Oxford University Business School and a Bachelor of Science degree from the University of Colorado at Boulder.

"As one of the largest commercial real estate leaders in the U.S., we're in a strong position to leverage our balance sheet, bringing greater focus on capital market financing for both governmental and developer clientele," said Wynne. "I look forward to increasing multifamily housing financing in the West to match what we have in the East."

Colton brings 30 years of municipal finance experience to Wells Fargo. His industry tenure includes 20 years in Morgan Stanley's municipal securities group, serving most recently as managing director at Lamont Financial Services. As managing director for Wells Fargo Public Finance, Colton focuses on both New York City and New York state issuers. He has specialized in municipal infrastructure, transportation, utilities, and sports facilities at the local and state levels. Colton holds a master's degree in industrial engineering and operation research from Columbia University and a bachelor's degree in computer science from Yeshiva University.

"Whether our clients are city or state issuers, our service sets our team at Wells Fargo Securities apart," said Colton. "I'm proud to join some of the industry's best talent, and I look forward to expanding our business in the Northeast."

Wynne and Colton are the seventh and eighth industry veterans to join Wells Fargo Securities' Public Finance division under Stratford Shields, head of Public Finance, who assumed his role in late 2017. Eight junior level associates have also joined the firm during his tenure.

September 13, 2018, 07:18 AM

[New Orleans Convention Center's View 'Substantially' Misses Value of Proposed Hotel's Public Funding, Watchdog Says.]

A local government watchdog is raising new questions about the financial and practical assumptions behind the Ernest N. Morial Convention Center's proposed 1,200-room high-rise hotel.

The nonpartisan Bureau of Governmental Research says the view of a consultant hired by the Convention Center "appears to substantially underestimate the value of the proposed public contributions."

BGR and that firm, HVS Convention, Sports and Entertainment Facilities Consulting, are at odds over the size of the public contributions being sought by the hotel's would-be developers. BGR says the total is close to $330 million, but HVS puts it at about half as much under a formula that the authority that governs the giant facility has endorsed.

Continue reading.

BY RICHARD THOMPSON | THEADVOCATE.COM SEP 13, 2018

North Las Vegas Rebounds From Near Insolvent to Investment Grade.

- **Poster child of bust offers first bond deal since 2011**
- **Upgrade from junk status permitted refinancing chance**

North Las Vegas, once considered the poster child of the housing bust, is betting the municipal-bond market will validate its rebound from the brink of insolvency.

The city is selling $99 million of general-obligation bonds on Sept. 11, its first such sale since 2011. The refinancing was made possible after it was upgraded back to investment-grade status in June last year by Moody's Investors Service and then this April by S&P Global Ratings.

The community of 243,000 bordering Las Vegas has benefited from the growth in the national and local economies and from diversifying its tax base. Amazon.com Inc. in April said it was building the state's fourth facility there, and Sephora, a cosmetics company under Paris-based conglomerate LVMH, broke ground on a distribution center in July.

"We really had no place but up to go," the city's chief financial officer, Darren Adair, said in an interview. "This recognizes the hard work that the city has done to restore structural balance."

The bond sale from North Las Vegas, which just four years ago faced the prospects of a state takeover and forcing concessions on bondholders, comes as money flows into funds and sales of new issues remain subdued. Wall Street memories can be short when demand for yield runs high, said Jason Ware, head of trading at brokerage 280 CapMarkets.

"That deal would have no problem getting done," he said.

North Las Vegas was the nation's third fastest-growing municipality from 2000 to 2009, until property values went into free fall from the recession and ensuing aftermath. Moody's cut its rating 10 notches from June 2011 through January 2014, according to spokesman David Jacobson. The city will have about $431 million in municipal debt outstanding after the refinancing, bond documents show.

Officials in Nevada, which doesn't permit municipal bankruptcy filings, discussed taking over the city's finances and possible legal changes that would force concessions on bondholders. Ultimately, the city didn't fall under the state's control and embarked on cutting costs and expanding its appeal to warehouse developers and logistics centers.

In June 2017, Moody's, which put the city in junk in 2013, returned it to investment-grade status by upgrading it to Baa3. Last month, the company bumped it up two notches to Baa1 with a positive outlook because of the continuing financial improvement.

S&P Global Ratings, which cut North Las Vegas to junk in 2014, moved it back to investment-grade in April with a BBB rating with a stable outlook.

Bloomberg Markets

By Romy Varghese

September 6, 2018, 7:57 AM PDT

Teetering Chicago Suburb Sued by Investors After Bond Default.

- **City of Harvey owes bondholders more than $2.5 million: suit**
- **Oppenheimer, Susquehanna seek payment from struggling city**

A financially struggling Chicago suburb was sued by investment firms for defaulting on $32 million of debt, claiming the town violated its contract with bondholders.

The Oppenheimer Rochester High Yield Municipal Fund, Oppenheimer Rochester AMT-free Municipal Fund and Susquehanna Government Products sued Harvey, Illinois, its mayor and Cook County officials for the city's failure to make more than $2.5 million of payments on bonds sold in 2007, according to a copy of the lawsuit filed in Cook County court.

The Sept. 4 suit alleges that the Cook County tax collector hasn't been depositing property-tax revenue collected for the city into a separate account to pay principal and interest on the bonds, as the city had guaranteed. Instead, the revenue has been distributed to the city first, in violation of the bond contract, according to the suit. The funds are supposed to be transferred to the city only after the debt is paid, the suit says.

Tom Corfman, a spokesman for Cook County Treasurer Maria Pappas, didn't immediately respond to a request for comment, nor did spokespeople for the companies that filed the suit.

Harvey, about 20 miles south of Chicago, has long been wracked by poverty and crime and was sued by the Securities and Exchange Commission four years ago for misusing money raised by selling bonds for an ill-fated hotel project.

The city missed six bond payments in fiscal year 2017, according to Moody's Investors Service, which described the municipality as "structurally insolvent" in a May report. Its available fund balance was negative $56 million at the end of April 2017, according to Moody's.

By Aug. 1, Harvey was more than $2.5 million in arrears on principal and interest payments due on the bonds sold in 2007. That includes more than $1.2 million owed to the plaintiffs, according to the suit.

Harvey Mayor Eric Kellogg didn't immediately respond to an email seeking comment on the suit, and his voicemail box was full. In 2016, Kellogg agreed to never participate in another municipal bond-offering in order to settle the SEC's charges of defrauding investors in connection with the hotel project.

Bloomberg Markets

By Elizabeth Campbell and Martin Z Braun

September 6, 2018, 10:20 AM PDT

Exit by Trump Foe Emanuel Raises Concerns for Corporate Chicago.

- **Former Obama chief of staff has led the city since 2011**
- **He was facing an expanding field of challengers in 2019**

President Donald Trump won't have Rahm Emanuel to kick around anymore, but corporate leaders in Chicago may not be as happy with the mayor's decision not to seek a third term.

In a move that promises to trigger a political free-for-all and could rattle investors in bonds tied to the nation's third-most-populated city, Emanuel, 58, announced Tuesday that he won't run for re-election next year.

Rahm EmanuelPhotographer: Scott Olson/Getty Images
The news comes as Chicago's population growth has stalled, the city faces massive pension liabilities, and it's routinely used by Trump as a synonym for urban decay and crime. Emanuel's announced departure also creates uncertainty just as he has helped stabilize the city's finances and led its bid to attract Amazon.com Inc.'s second headquarters, with its 50,000 jobs. Chicago is one of 20 finalists in the competition.

"This is a big moment for Chicago, which is now at a crossroads," said Jack Lavin, president and chief executive officer of the Chicagoland Chamber of Commerce. "Mayor Emanuel has been good for the growth and development of the city, and the business community needs stability to continue creating jobs and opportunities for people."

Wooing Corporations

Emanuel has had success wooing corporations: more than 50 companies have relocated their headquarters to Chicago during his tenure. And others like Chicago-based United Continental Holdings Inc., one of the city's largest private employers, have added jobs to the city.

"We are proud of the productive partnership we've built with the mayor and his team, working together toward a common goal of creating greater economic opportunity for all Chicagoans," United CEO Oscar Munoz said in a statement. "Particularly, the mayor's focus on building 21st century infrastructure, especially forging a landmark agreement to modernize O'Hare, will support Chicago's economic competitiveness and success long into the future."

The city's fiscal challenges remain daunting, with pensions still only 27 percent funded. Chicago plans to contribute $1.18 billion to the retirement funds in fiscal year 2019 with payments ramping up in the coming years, according to an annual financial analysis. Chief Financial Officer Carole Brown has also been considering issuing pension-obligation bonds to further stabilize the massive debt.

"They have before them one of the most serious fiscal problems in America right now, and that is the huge liabilities," said Richard Ciccarone, president of Merritt Research Services LLC, which analyzes municipal finance. "They're going to have to be paid for by taxes and new revenues without disturbing economic stability in the city of Chicago."

Chicago's fiscal picture improved under Emanuel, said Laurence Msall, president of the non-partisan

Civic Federation, which tracks the city's finances. He cited Emanuel's move to end the borrowing for operations and selling bonds to pay off maturing debt.

Who's Next?

"It will remain to be seen whether the next mayor will continue to embrace these practices or slip into such financial lapses," Msall said. "It's difficult to know who the next mayor will be or whether they will be able to match Mayor Emanuel's persona and dedication to economic development. But many of the structural improvements that Mayor Emanuel can rightfully take credit for will continue beyond his administration."

An adviser close to Emanuel said he thinks the announcement was made now so that candidates more to the mayor's liking still had enough time to enter the race and that the decision to leave the job was more personal than political.

His decision came on the eve of a murder trial where a white Chicago police officer is accused of repeatedly shooting a black teenager — a case that encapsulated Emanuel's struggle to both improve public safety and community relations with police in a city Trump has ridiculed for its crime problems.

"Chicago Police have every right to legally protest against the mayor and an administration that just won't let them do their job," Trump tweeted in May. "The killings are at a record pace and tough police work, which Chicago will not allow, would bring things back to order fast…the killings must stop!"

In fact, Chicago's murder rate is down this year. But the city still suffered nearly twice as many homicides as New York City, which has more than three times the population. Chicago recorded 375 murders this year through Sept. 2, down 19 percent from last year, according to police department data. New York has recorded 188 murders as of Aug. 26.

The city's bloodshed has drawn national attention. After a single weekend saw about 70 wounded last month, Rudy Giuliani, Trump's lawyer and the former mayor of New York, tweeted about the crisis, blaming the city's Democratic rule and expressing support for one of Emanuel's challengers: Garry McCarthy, a former New York City police official who the mayor hired to lead Chicago's force.

Police Shooting

McCarthy was fired by Emanuel in 2015 in the wake of the release of a video showing the fatal police shooting of 17-year-old Laquan McDonald. The incident brought calls for Emanuel's resignation. The murder trial of the police officer accused of killing McDonald, Jason Van Dyke, is scheduled to start this week.

Emanuel's departure also raises uncertainty for investors who have praised his work to right the junk-rated city's finances. For years, Chicago hadn't paid enough into its four retirement funds, and the strain had been weighing on the city's ability to provide services to residents.

As mayor, Emanuel enacted higher property taxes and utility levies as part of a series of steps to shore up Chicago's retirement funds. Moody's Investors Service, which had cut Chicago's rating to below investment grade in 2015, raised the city's outlook to stable in July, citing some of the work of Emanuel's administration. S&P Global Ratings and Fitch Ratings consider the city's bonds investment-grade.

Daley Successor

Emanuel's tenure was relatively brief, at least by Chicago standards. Before his election, a Daley had run Chicago for 43 of the previous 55 years.

"This has been the job of a lifetime, but it is not a job for a lifetime," Emanuel told reporters during a City Hall news conference on Tuesday, flanked by his wife, Amy Rule.

In his 2011 win, Emanuel beat a field that included five other candidates to became Chicago's first Jewish chief executive. While in office, he generally remained composed in public, not showing what he has acknowledged to be a sometimes expletive-laced, explosive personal style.

The mayoral election is scheduled for Feb. 26. If a single candidate doesn't receive more than 50 percent of the vote, the two contenders with the most votes will compete in a run-off on April 2, according to the city's Board of Election Commissioners.

Emanuel, former President Barack Obama's first chief of staff and a former Chicago congressman, had been raising money ahead of next year's election. In the second quarter alone, his campaign took in more than $6 million, according to campaign finance disclosures.

Emanuel had $7.5 million in his campaign account at the start of July, disclosure reports show. While he's not obligated to do so, Illinois law would allow him to give any amount of that total to a political party committee or even a mayoral candidate.

Among the dozen challengers he was facing were McCarthy and former Chicago Public Schools chief Paul Vallas. There's no clear frontrunner now.

Emanuel's departure has left the city with a "political free for all" where candidates will be forced to address issues rather than attack the incumbent, said Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago.

"They're going to have to start proposing solutions," Pagano said. "It really has to be based on who has the proposal that can appear to move us away from those two major issues: financial issues and gun violence."

Bloomberg Markets

By Elizabeth Campbell and John McCormick

September 5, 2018, 2:00 AM PDT

Cook County Board Considering New Revenue Forecasting Commission.

A previously deferred proposal to create a revenue forecasting commission designed to give additional financial analysis to the Cook County Board is slated to formally be presented for a vote on Wednesday, Sept. 12 in the Board's finance committee.

So far, the idea has support from several commissioners and at least one notable detractor.

Supporting the proposal is its sponsor, 7th District Commissioner Jesus "Chuy" Garcia (Pilsen), and co-sponsors 1st District Commissioner Richard Boykin (West Side), 14th District Commissioner Gregg Goslin (Glenview), and 17th District Commissioner Larry Suffredin (Evanston).

Board President Toni Preckwinkle came out against the idea earlier this summer, resulting in Garcia deferring the presentation until this month.

Making the case

Those on each side of the issue have stated their case going into the September meeting.

Garcia has been reframing the proposal, meeting with his co-sponsoring supporters as well as Michael D. Belsky, executive director of the Center for Municipal Finance at the University of Chicago Harris School of Public Policy. He aims to present to fellow commissioners a vote-friendly proposal.

The initial proposal included establishing a seven-member panel of financial experts, selected by the board president and approved by the board.

Garcia said, “This independent body would specialize in conducting five-year revenue forecasting and would serve as a much needed fiscal resource and research arm to the board and would not pose a burden to the County as has been previously characterized.”

Boykin said an independent commission would help because the board president “currently has all the information” regarding revenue and that “we basically rely on her in good faith though the budget office.”

He referred to last year’s soda tax, which the board later rescinded, as an example of needing a better method to forecast revenue needs.

“Just like Congress has the budget office independent of the president, we need something that will provide transparency,” Boykin said.

Preckwinkle opposition

Becky Schlikerman, spokesperson for Preckwinkle, said, “We do not believe creating this commission at this time is an appropriate use of tax dollars. Incurring additional expenses at a time when we continue to face financial challenges and have to make difficult decisions on how to balance our budget would be irresponsible.”

Schlikerman pointed to other concerns, including adding a new layer of government. She also said revenue projections over the past three years have come within 2% of home rule taxes and that commissioners already are well informed about revenues and have the option to meet with the president’s finance team. She drew a further difference with revenue commission proponents in noting the effectiveness of the 2017 beverage tax projections and needed collections.

“The projection was spot on,” Schlikerman said.

“I don’t recall any of our revenue projections being that far off,” agreed 11th District Commissioner John Daley, noting that the board members all have an equal opportunity to discuss revenue matters. He said the revenue commission may be worth considering, though he also expressed concern over costs that may increase over time.

Other commission proponents and opponents have focused on anticipated costs of creating a revenue commission as well. A June 26 letter from Ammar M. Rizki, chief financial officer of the County’s Bureau of Finance, to the Board of Commissioners noted that first-year costs could amount to at least $600,000. The Better Government Association (BGA) in Chicago, which offered a July 19 letter to commissioners supporting the revenue commission creation, outlined a $400,000 cost based on one part-time and two full-time staff members. The letter uses a comparative example of the Office of Economic and Financial Analysis in Washington State's King County.

Rachel Leven, policy manager and co-author of the BGA letter, said her organization recommends a three-person staff, including one economist, that ideally would forecast five years and assess whether the County's proposed budget is balanced. The proposal also suggests the commission could offer education and assessment to other Cook County governments, including small municipalities and townships.

"I imagine there is an element of control," Leven said. "Revenue forecasting is understandably political because it may be hard to trust someone else to do that."

Academic views

Local academic experts said they see value in creating a revenue commission, with added suggestions.

Michael Pagano, dean of the University of Illinois at Chicago (UIC) College of Urban Planning and Public Affairs, favors having an extra set of eyes. He noted the Congressional Budget Office has operated along with the U.S. President's Office of Management and Budget since 1974. While that move resulted from Congressional mistrust toward the Richard Nixon administration, Pagano said better revenue forecasting is likely with a commission.

He also said the BGA's estimated $400,000 price tag may not be enough.

"That's hardly enough for the kind of staff that is truly independent," Pagano said. "What it might be able to do is provide research in certain cases."

Pagano also suggested obtaining research through resources at a university level. UIC has a Government Finance Research Center.

At Roosevelt University, Ralph Martire, Arthur Rubloff Endowed Professor and executive director of Chicago-based think tank Center for Tax and Budget Accountability, said there are two ways to look at the proposed revenue commission.

"This is one of those interesting situations where they [Preckwinkle and Garcia] both make good points," Martire said. "When you struggle with a shortfall, you wouldn't want to take away from services to fund a good government initiative. But you do want to put a policy in place for a long-term benefit. Preckwinkle won't always be in office. Cook County government is larger than most state governments, and it has unique challenges. It's a balancing act."

For the BGA, log on to https://www.bettergov.org/. For the Cook County Board, log on to https://www.cookcountyil.gov/board-of-commissioners. For CUPPA, log on to https://cuppa.uic.edu/. To contact Martire, email rmartire@roosevelt.edu.

Gazette Chicago

By Rick Romano

September 7, 2018

Michigan Public Finance: Election Do's and Don'ts for School Districts

The Act –

School district board members, administrators and employees are required to abide by the Michigan Campaign Finance Act. The Act prohibits the contribution of public funds or resources to a campaign for a candidate or ballot proposal while permitting the dissemination of objective factual information and permitting employees to volunteer services or express their views on their own time. Board members and policy-making administrators (at least the superintendent) may engage in advocacy at any time as long as no district resources are used to disseminate those views.

Please see full Article for more information.

Miller Canfield

September 6, 2018

Florida Blazing the Trail for P3 Legislation: Bilzin Sumberg

We have previously blogged about the many recent legislative developments in Florida and the Miami area, with a focus on legislation that is designed to facilitate public/private development projects (P3). Although an increasing number of P3 projects are now in various stages of development, the success of Florida's legislative effort can also be seen in the positive reaction by other jurisdictions.

Earlier this month, the State of New Jersey adopted comprehensive P3 legislative that largely mirrors Florida's recent P3 law, including the broad authorization to units of local governments to deliver public facilities and services using the P3 model. Like Florida's P3 law, the New Jersey law also permits governments to accept unsolicited proposals from the private sector. (Unsolicited Proposals have been used to jumpstart several P3 projects throughout Florida, including the Seminole County government center and the recently proposed extension of Brightline from Tampa to Orlando.)

We have also mentioned the recent expansion of Miami-Dade County's Rapid Transit Zone, or RTZ, which facilitates the development of mass-transit infrastructure and adjacent private or public/private transit-oriented development by granting zoning jurisdiction to the County, even for property located in cities, and permitting more development near transit stations than would often otherwise be the case. This month, the California Senate adopted a bill that would similarly grant zoning jurisdiction to the Bay Area Rapid Transit Authority (BART), with the goal of increasing housing density near stations. The bill previously passed the California State Assembly, but the Senate made amendments that will need to be adopted by the Assembly before the bill becomes law.

Imitation is the sincerest form of flattery, as the saying goes, and the recent legislative activity in New Jersey and California should give state and local leaders in Florida and Miami some additional comfort that they are on the right path.

Bilzin Sumberg

September 4, 2018

Pennsylvania's Imminent Report on Investment Fees: What's Coming Next?

The schedule for review of the investment strategies of the Public Employees' Retirement System and School Employees' Retirement System just became accelerated.

At its hearing on July 30, 2018, Pennsylvania's Commission—tasked with looking into the costs and benefits of actively managed investment strategies—noted that it expects to deliver its findings on the topic to the governor and the state legislature "prior to November 30th." We previously discussed this subject in our *Alerts*, "PSERS Takes Action to Reduce Fees Paid to External Investment Managers" and "PA Commission Scrutinizes Active Management of Public Pension Assets."

Pennsylvania's Auditor General Eugene DePasquale decided not to wait until November 30 to chart his path forward. On August 23, 2018, he announced that he will conduct a review to assess whether PSERS and SERS have done enough to implement his recommendations from his 2017 audits, which focused generally on reducing fees and increasing transparency. This work, which is part of DePasquale's much broader review, will "begin in 2020."

Increased litigation seems to be a possibility as well. At its recent hearing, the Commission's chairman recognized the lurking possibility of litigation:

> One of the things that I notice in the marketplace and our practice is that you have got participants that are suing people in fiduciary capacities of 401k plans. It's not uncommon today. And I kind of always look, you know, when is the day going to occur when defined benefit participants start going back after, or taxpayers start going back after the fiduciaries of defined benefit plans?

We will continue to monitor the proceedings and provide updates as warranted.

Jones Day

September 5, 2018

California Utility Frets on Fire Costs as State Dodges Action.

- **Lawmakers passed legislation that helps corporate utilities**
- **Municipal-owned utilities didn't get the help they wanted**

As California's lawmakers debated late Friday night under the statehouse capitol dome in Sacramento, the city's utility district kept the lights on for them. But the legislators fell short for the electricity provider.

Officials at the Sacramento Municipal Utility District had wanted legislators to support Governor Jerry Brown's proposal to give all utilities relief from strict liability rules. That didn't happen.

Instead, they passed a bill on the last day of session that benefits publicly-traded competitors such as PG&E Co. by allowing new customer fees to help pay fire damages.

California Approves Bill to Help PG&E Pay for Wildfire Costs

Under California law, a utility can be held liable if its equipment caused a fire — even if the company followed safety rules. So if a tree limb outside the Sacramento Municipal Utility District's right of way blows into its power line and sparks a fire, the agency, which has about $2 billion in municipal bonds outstanding, could be on the hook.

Utilities are pressing the issue with increasing urgency after deadly fires last October destroyed large swaths of California wine country, including thousands of homes, and killed 44 people. California investigators have already named PG&E power lines and other equipment as the source of 16 fires last year.

Subject to Damages

"We're subject to damages that we have no control over,"said chief legal officer Laura Lewis in an interview Friday before the vote. "This legislation does nothing to help mitigate that potential risk, which we don't feel is equitable."

Unlike PG&E, the district, which earns 48 percent of its revenue from residences, has no shareholders. "We have no other recourse than to pass along costs to our customers," Lewis said.

The utility estimates that if saddled with $1.5 billion in damages, it would increase rates by 25 percent. That would hurt those with limited budgets — already, the district offers a low-income discount to 15 percent of its residential customers, bond documents show.

Lewis said the utility, along with its peers, will continue to raise the issue with lawmakers next year. It's becoming more significant as the climate changes. The average area burned by fires statewide would increase by 77 percent by 2100 if greenhouse gas emissions rise unchecked, according to California's Fourth Climate Change Assessment released in August.

"Extreme weather is going to continue," Lewis said. "That's going to fuel more wildfires down the road."

Bloomberg Business

By Romy Varghese

September 4, 2018, 8:37 AM PDT

— With assistance by Mark Chediak

S&P Medians And Credit Factors: California Municipalities

California municipalities' credit quality remains very strong, in S&P Global Ratings' view, supported by a dynamic economy that has been one of the nation's top performing for the last several years, generally strong budgetary performance facilitated by steady revenue growth, and financial management often supported by formal policies and regular budget monitoring.

[Continue Reading]

Sep. 6, 2018

[A Public Bank for LA: Instead of Sending Hundreds of Millions to Predatory Finance, Angelenos' Taxes Can Fund Community Development]

The City of Los Angeles sends the nation-wrecking finance industry more than $100MM/year in the form of fees and penalties for its banking business, supporting the institutions whose racist lending practices, financial engineering and mortgage fraud have wreaked untold harm on the city's residents.

This November, Angelenos will get to vote on a proposition to [create a public bank] that will back LA's smaller community banks and do the city's business without lining finance's pockets. This bank will be able to fund community projects from housing to transit to health-care, and will be able to take deposits from the city's burgeoning cannabis industry, which is presently shut out of the federally guaranteed bank system and relies on safes in entrepreneurs' homes or businesses to stash millions in cash.

The finance industry hates and fears this proposal and is spreading FUD about how a bank that is under democratically elected political control will inevitably become corrupt — while the discipline of the market will supposedly keep banks on the straight and narrow. Tell that to the millions of Americans whose suffered from Wells Fargo's corruption.

> And those are not the only benefits of a public bank, backers claim. A public bank would enable the city to loan money for badly needed affordable housing development. They believe a city-owned bank could extend the credit lines of community banks and credit unions to offer loans to low-income residents and help bankroll affordable housing.
>
> Another benefit touted by bank promoters: badly needed investment in infrastructure. They hold out the example of Costa Rica's public bank, Banco Popular. Advocates claim that this bank has been the financial linchpin behind the financing of water supply systems, residential solar panels, and hydroelectric generators.
>
> "A public bank could make some investments that in the long-term would be profitable for LA… [investments that] no bank focused on short-term profit would dare to invest in," Baradaran asserted.
>
> A public bank is also seen by many as a means to local self-determination and bypassing high Wall Street interest rates. For example, LA public bank advocates estimate Los Angeles pays $3.14 billion in debt service, the cost to borrow money, from Wall Street. They argue a municipal bank would allow the city to recapture that money and give Los Angelenos a say in redirecting this funding toward local projects.

boingboing.net

New Jersey Authorizes Expanded Use of P3s.

Dive Brief:

- New Jersey Gov. Phil Murphy has signed into law a new bill that expands the use of public-private partnerships in the state to buildings and highway infrastructure projects. State and county colleges, under the Higher Education Institution Public-Private Partnerships Program, were already allowed to enter into such agreements as long as the private party provided 100% financing and the public entity retained ownership of the land.
- Projects under the new law can be wholly or partially financed by a private partner but the public entity still will have rights to certain financial and land-use controls. If the private partner seeks to lease any publicly-owned asset as part of the P3, the lease period cannot exceed 30 years if it's in exchange for financing. In addition, workers on these projects must be paid a prevailing wage, the P3 must incorporate a project labor agreement and all private participants — including contractors and subcontractors — must be registered with the state.
- The state treasurer will provide oversight and must approve all P3 agreements under the new measure. The treasurer's office will also post the status of each new P3 agreement — proposed, under review or active — on its website. Murphy said the new regulation was a bipartisan effort by lawmakers to "give state, county, and local officials the much-needed flexibility they need to improve their communities while creating good-paying new jobs — and, in most cases, good union jobs — while leveraging private capital to invest in public infrastructure."

Dive Insight:

Contractors are just one piece of a P3 construction project, which also see some combination of design, financing, maintenance and operation components as well.

While P3s can be used for most any project, there is a growing demand for transportation-related P3s, according to a report earlier this year from law firm Husch Blackwell. This is because public agency budgets are such that these entities have started to explore other ways to get their projects done. Husch said that the agencies taking on P3s are not just using the full-on version in which the private partner takes on design, build, finance, operations and maintenance duties — but various permutations of that model.

As far as opportunities in P3s, public respondents to Husch's annual survey of registrants of the annual Public-Private Partnership Conference and Expo said that they were most likely to pursue public-facility (62.5%), government-facility (57.5%) and transportation (52.5%) P3s during the next three years. Those in the private-sector responded that they would most likely pursue those projects in the transportation (69%) sector.

Construction Dive

by Kim Slowey

Aug. 27, 2018

Brightline Rail System Wins Approval to Issue Tax-Exempt Bonds. Not

Everyone is Cheering.

All Aboard Florida got the go-ahead Wednesday from a state board to issue $1.75 billion in federal tax-exempt bonds for its Brightline passenger-rail system, as officials and residents from the Treasure Coast and Central Florida fought over a planned northern extension.

The Florida Development Finance Corp. Board of Directors backed issuing what are known as "private activity" bonds needed to extend Brightline north from West Palm Beach.

The approval came after board members asked Brightline officials for assurances that the Treasure Coast region wouldn't be hurt economically. Many residents and officials in Treasure Coast areas such as Martin and Indian River counties have long objected to the rail service.

But Central Florida officials, with the backing of the Florida Chamber of Commerce and other business-lobbying groups, view the passenger trains as an alternate link from South Florida that would complement the existing SunRail system in the Orlando area.

Florida Development Finance Corp Chairman Daniel Davis, whose agency has the authority to approve the federal bonds, said after the vote he hoped outstanding issues between Treasure Coast leaders and All Aboard Florida could be worked out.

The board approved a new series of $1.15 billion in bonds and the refinancing of $600 million in previously approved bonds, which helped set up the existing southern portion of the service.

Brightline, which started running between West Palm Beach and Miami this year, is looking to extend north to Orlando in 2021. Brightline has also started to work with the state on pursing an Orlando-to-Tampa route.

Officials representing Martin and Indian River counties, which have brought lawsuits against the service, raised questions about safety and potential economic and quality-of-life impacts of higher-speed trains running through their communities.

Brightline officials said they have approached Treasure Coast communities to consider stops and have taken similar steps for Cocoa in Brevard County.

Indian River County Attorney Dylan Reingold was among critics pointing to low ridership numbers — 74,780 people collectively paid $663,667 for tickets in the first three months of this year — for the service running between Miami and West Palm Beach, as he forecast little chance of the service becoming a financial success.

Brightline Chief Executive Patrick Goddard responded that the service was running between West Palm Beach and Fort Lauderdale in the first quarter.

Reingold also joined opponents — including state Sen. Debbie Mayfield, R-Rockledge, and state Rep. MaryLynn Magar, R-Tequesta — in requesting the bond decision be delayed, as federal litigation in pending about environmental impacts and as members of Congress have been looking into the proposal.

Reingold also said if the bonds were approved, conditions should have been added to limit the fiscal impact on what taxpayers must cover to maintain rail crossings that will have to be upgraded from freight service.

"It's a private company owned by a Japanese hedge fund," Reingold said. "It expects Indian River

County taxpayers to pay for the maintenance of their (rail crossing) improvements for eternity."

All Aboard Florida is owned by Fortress Investment Group LLC, a global investment management firm acquired last year by Toyko-based SoftBank Group Corp.

Ruth Holmes, a Martin County attorney, said Brightline should also be required to use an alternative route or to double-track the single-rail drawbridge north of downtown Stuart over the St. Lucie River. Otherwise, Holmes said, the constant opening and closing of the spans — from existing freight traffic and Brightline planning 16 daily round trips between Miami and Orlando — would hinder maritime traffic and business in the downtown area.

"That draw closure and opening is going to happen about 52 times a day," Holmes said. "That effectively shuts down that bridge."

Indian River County Commission Chairman Peter O'Bryan noted a number of deaths that have occurred in the past year with the new rail service in South Florida and warned that approving the issuance of the bonds would equate to giving "a license to kill for All Aboard Florida."

Countering those arguments, Central Florida lawmakers urged support for the bonds as they envision Brightline bringing economic growth to the state by removing cars from the highways and giving tourists more travel options.

Rep Jason Brodeur, R-Sanford, said Brightline is seen as a link to South Florida for the SunRail service, and he joined others in pointing out that most of the rails for Brightline have been in place since the late 1890s, when industrialist Henry Flagler brought passenger trains south.

"I have 500,000 people who are really looking forward to this," Brodeur said of the people he represents in Seminole County, north of Orlando.

Rep. Mike Miller, R-Winter Park, said the expansion of the service means jobs at both ends of the line.

"One of our jobs as legislators is to create an environment where there are jobs," Miller said. "This not only creates 2,000 jobs, and $2.4 billion worth of economic impact, directly because of Brightline, but it creates billions of dollars in jobs and job opportunities in Miami, West Palm, Orlando and throughout our state."

Rep. Tom Goodson, R-Rockledge, said residents in Brevard County are "enthused" at the prospect of a station in Cocoa that could serve the space industry and Port Canaveral.

Dennis Grady, President and CEO of the Chamber of Commerce of the Palm Beaches, said since being introduced in January, Brightline has made the Miami-Dade, Broward and Palm Beach region a "smaller, more manageable place to live and work."

But he added, for the state goal of a viable inner-city rail system, Brightline must be able to expand to Orlando.

News Service of Florida

by Jim Turner

August 29, 2018

[Norton to Introduce Bill Affording New Way for D.C. to Secure Private Funding for Public Infrastructure Projects.]

WASHINGTON, D.C.—Congresswoman Eleanor Holmes Norton (D-DC) today announced that she will introduce a bill that clarifies the District of Columbia's authority to enter into public-private partnerships (P3s). The District recently began the procurement process for its first-ever P3s: rehabilitating the Metropolitan Police Department headquarters (Daily Building) and modernizing streetlights. The bill makes it clear that the federal Anti-Deficiency Act (ADA), which uniquely applies to D.C., does not prohibit the District from entering into P3s. The bill provides legal certainty that D.C. may enter into multi-year contracts to design, construct, improve, maintain, operate, manage and/or finance projects procured pursuant to a local D.C. law, the Public-Private Partnership Act of 2014.

"Federal law potentially limits the authority of only one jurisdiction, the District of Columbia, to enter into public-private partnerships," Norton said. "The federal government, many states and other countries have used P3s. There is no reason that the District should not be able to take advantage of this option. Among other benefits, P3s will free up District funds that would otherwise be spent on infrastructure for other pressing needs, such as education and health care."

The federal ADA prohibits the federal and D.C. governments from obligating or expending funds in advance or in excess of an appropriation. A critical benefit bestowed by P3s is that the District would not have to appropriate all the funds upfront, freeing up funds for the District to spend on other matters. An ADA violation may occur if the District terminates a P3 contract. Under P3 contracts, the District would make payments on an annual basis over the life of a contract, and the District would appropriate the funds for such payments annually. However, upon termination, the District would have to pay all costs incurred up to that point, but would not yet have appropriated all the funds for such payments, potentially causing an ADA violation.

Under D.C. law, "a 'public-private partnership' means the method in the District for delivering a qualified project using a long-term, performance-based agreement between a public entity and a private entity or entities where appropriate risks and benefits can be allocated in a cost-effective manner between the public and private entities in which:

(A) A private entity performs functions normally undertaken by the government, but the public entity remains ultimately accountable for the qualified project and its public function; and

(B) The District may retain ownership or control in the project asset and the private entity may be given additional decision-making rights in determining how the asset is financed, developed, constructed, operated, and maintained over its life cycle."

August 29, 2018

[Developing with Other People's Dollars: Leveraging Public Property in NC for Private Development]

Downtowns across the country are seeing an increase in population and North Carolina is no exception.

From 2016-2018, 45% of North Carolina's population growth occurred in its seven largest municipalities. During that same time, rural areas in the state saw their populations decrease.

This "urbanization," or flow of people from small towns and counties into North Carolina's cities, is increasing the need for development projects and opportunities for developers. In an already competitive development environment, public-private partnerships ("PPP's") can offer developers opportunities that would not otherwise exist, including the chance to collaborate with municipalities on large-scale projects that can result in cost savings and a competitive advantage.

Continue reading.

Ward and Smith, P.A.

August 30, 2018

Ambac Announces Execution of COFINA Plan Support Agreement.

Advances Resolution of COFINA Title III Proceedings

NEW YORK, Aug. 30, 2018 (GLOBE NEWSWIRE) — Ambac Financial Group, Inc. (Nasdaq:AMBC) ("Ambac"), a holding company whose subsidiaries, including Ambac Assurance Corporation ("AAC"), provide financial guarantees, announced today that AAC, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), the Puerto Rico Sales Tax Financing Corporation ("COFINA"), Puerto Rico Fiscal Agency and Financial Advisory Authority, Bonistas Del Patio, Inc., other bond insurers, and certain holders of senior and junior COFINA bond claims have executed a Plan Support Agreement (the "COFINA Plan Support Agreement") for the restructuring of all senior and junior COFINA bonds.

AAC insures $808.5 million of the initial principal amount of Senior COFINA Capital Appreciation Bonds (approximately $1,325.4 million of accreted value as of, but not including, the May 5, 2017 petition date (the "Petition Date") in the COFINA Title III proceeding). AAC also owns approximately 58% of AAC-insured senior COFINA bonds.

The COFINA Plan Support Agreement furthers the agreement-in-principle announced by the Oversight Board on August 8, 2018. Under the COFINA Plan Support Agreement, the creditor parties agree, among other things, to support the filing of a plan of adjustment with respect to COFINA that provides for a distribution of Plan consideration comprised of new COFINA bonds and cash, with a face amount in the aggregate equal to approximately 93% (plus accrual, as of August 2018) of senior COFINA bond holders' Petition Date claim amounts, without taking into account AAC's insurance policy for the AAC-insured bonds, and a face amount of approximately 56% (plus accrual, as of August 2018) of junior COFINA bond holders' Petition Date claim amounts. The contemplated Plan of Adjustment, once confirmed by the court overseeing COFINA's Title III proceeding, will also finally resolve all COFINA-related litigation and validate the COFINA structure.

Under the COFINA Term Sheet (attached as an exhibit to the COFINA Plan Support Agreement), holders of AAC-insured senior COFINA bonds would have the option to elect to either (i) commute their rights in respect of the AAC insurance policy associated with the existing senior COFINA bonds, which bonds will be cancelled, in exchange for new COFINA bonds, cash amounts to be paid by COFINA, plus additional consideration provided by AAC, or (ii) exchange their senior COFINA bonds for trust certificates issued by a custodial trust, which trust would receive distributions from

COFINA under the new COFINA bonds, plus payments under the existing AAC insurance policy in respect of any shortfalls. Payments on the new COFINA bonds deposited in the custodial trust would reduce AAC's obligations on its insurance policy.

The terms of the COFINA Plan of Adjustment and related documentation which will effectuate the contemplated transactions remain subject to negotiation and court approval.

Claude LeBlanc, President and Chief Executive Officer of Ambac commented "While there is a lot of work left to be done, the execution of the COFINA Plan Support Agreement is a definitive step towards a final resolution of Puerto Rico's debt restructuring and we are pleased to be a party to the COFINA Plan Support Agreement. The negotiated settlement of the Commonwealth-COFINA litigations also provides significant value to the Commonwealth through a sharing of the sales tax revenues, and resolution of the COFINA Title III proceedings will provide clarity regarding one of Ambac's key adversely classified credits."

The COFINA Plan Support Agreement, and related term sheet can be found on Ambac's website under the heading "Information for Investors Regarding COFINA Plan Support Agreement."

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 ("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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Source: Ambac Financial Group, Inc.

New Puerto Rico Bond Group Starts Negotiations.

Funds holding about $1.9 billion in general obligation bonds split from a rival group in a bid to further broader restructuring efforts

Investment funds owning about $1.9 billion of Puerto Rico's general obligation bonds have formed a committee to negotiate a consensual restructuring with the commonwealth and the federal oversight board that manages its finances, people familiar with the matter said.

Members of the committee are seeking to differentiate themselves from a pre-existing group of general obligation bondholders that includes Aurelius Capital Management LP, which is fighting the board and the island's government in ongoing litigation, the people said

The new group organized in August after the oversight board reached important deals with Puerto Rico's two other largest classes of debt—bonds issued by its power utility and its sales-tax authority—raising hopes that general obligation creditors might also broker a settlement. The committee includes hedge funds Fir Tree Partners and Mason Capital Management LLC and mutual-fund manager First Pacific Advisors LLC, according to a bankruptcy-court filing.

The formation of the new group increases the likelihood that Puerto Rico will settle with its last large group of bond investors, potentially paving the way for a global restructuring of its finances.

Prices of Puerto Rico's $3.5 billion general obligation bond due in 2035 have risen about 33% this month to 53 cents on the dollar, according to data from the Municipal Securities Rulemaking Board.

Brokering restructurings with investment funds that own much of its $70 billion of bonds is critical for Puerto Rico because it needs to regain access to capital markets as a precondition for the removal of the oversight board. Litigation with creditors also has grown expensive for the island since it entered bankruptcy court in May 2017. Legal fees are expected to exceed $1.1 billion over six years.

Relations between Puerto Rico and general obligation creditors have been frosty for much of the past two years. Fiscal plans published by the government and oversight board last year left little to repay its $13 billion of general obligation bonds. Aurelius is suing the board, contending its appointment was unconstitutional. The committee Aurelius is part of also has argued that general obligation bondholders should have first claim on tax revenues before holders of about $18 billion of bonds issued by the island's sales-tax authority known as Cofina.

"We have participated in constructive negotiation with the [Oversight] Board, and we hope that will continue," a spokesman for the committee that includes Aurelius said. "We've submitted proposals that would have achieved a consensual outcome, and we would welcome the Board's engagement and commitment to a solution."

The oversight board reached an agreement in early August with a committee of Cofina bondholders granting them claim on a portion of sales-tax revenues and average recoveries of 74.5% of face value.

The recent deals with other creditor groups opened the door to a possible detente for general obligation bondholders, the people familiar with the new group said. Fir Tree and the other funds in the group already had been negotiating a deal with Puerto Rico to restructure bonds they own issued by its Public Buildings Authority and saw an opening to do the same for their general obligation bond investments.

A key negotiating point will be how the oversight board and Puerto Rico calculate revenue in future fiscal plans, the people familiar said. The larger the revenue assumptions, the more cash will be left over for debt servicing, they said.

The Wall Street Journal

By Matt Wirz

Aug. 29, 2018

Fitch Rates Chicago Housing Authority, IL GO Bonds 'AA-'; Outlook Stable.

Fitch Ratings-New York-30 August 2018: Fitch Ratings has assigned a ‘AA-‘ rating to the Chicago Housing Authority’s (CHA) 2018 A & B general obligation (GO) bonds. The Rating Outlook is Stable.

CHA expects to issue its series 2018 A&B bonds in the amount $325 million during the week of Sept. 4, 2018. Proceeds of the series 2018 A&B bonds will be used to finance certain capital costs of the authority and related projects within its portfolio. In addition, the proceeds will be used to fund the debt service reserve fund and pay the cost of issuance.

SECURITY
The series 2018 AB bonds are secured by the general obligation pledge of CHA.

ANALYTICAL CONCLUSION

CHA’s rating reflects continuing demand for public and affordable housing within the city of Chicago. In addition, CHA exhibits stable and predictable revenue and cash flow derived from its rented properties, as well as public housing grants. It further exhibits strong and prudent management of operations evidenced by its management of finances and its good standing with the federal oversight provided by the Housing and Urban Development (HUD).

KEY RATING DRIVERS

Revenue Defensibility: Midrange
Fitch assesses CHAs revenue defensibility as midrange given the authority’s pricing characteristics. Although, Fitch expects demand to remain strong within the city of Chicago, CHA has limited flexibility to raise rates on its existing portfolio given income and rental rate limits for public housing. CHA shows healthy occupancy (95%) and turnover within its housing properties. Demand is evidenced by the authority’s current waiting list of 108,922 Chicago residents in need of low income housing. In addition, CHA operates with a collection rate of 99% of tenant rent. It also manages a housing choice voucher (HCV) program, which allows the authority to house an additional 47,000 tenants. This program permits residents to take their affordability voucher to units outside of the CHA portfolio, fulfilling its mission of providing affordable housing to the city.

Operating Risk: Stronger
CHA’s ‘stronger’ operating risk is supported by its designation as one of 39 Moving-To-Work (MTW) PHAs, which allows for flexibility and fungibility in the use of its intergovernmental grants from HUD for cost efficiency. Participation in the rental assistance demonstration (RAD) further provides

greater funding certainty for potential lenders and increased operational flexibility for the authority. Strong resource management is also reflected in CHA's year-over-year funding from HUD and its recently renewed MTW status through 2028; both indicate the oversight agency's view of the authority's overall management capabilities.

Financial Profile: Stronger
Low debt levels, healthy cash balances and net annual surpluses over the last five years support CHA's 'stronger' financial profile. The authority's business plan forecasts positive funds available for debt service (FADS) as they continue to transform nearly 44% of its public housing portfolio units to Section 8 and mixed-income properties through the RAD conversion program, where rent rates may become more flexible. Despite anticipated debt issuance, Fitch expects CHA's net leverage to remain consistent with the assessment over the next five years.

Asymmetric Additive Risk Factors
Asymmetric risk factors are neutral to the rating. Debt characteristics are manageable with level debt service payments. In addition, the governing body is solid with sound extensive experience and stability.

RATING SENSITIVITIES
Lower Grants and Transfers: CHA could be subject to negative rating pressure if a consistent decline in grants and transfers were to weaken funds available for debt service and increase the authority's leverage ratio.

CREDIT PROFILE

CHA was created in 1937 to own and operate housing built by the federal government under President Franklin Roosevelt's Public Works Administration. CHA is one of the largest PHA's in the United States with 21,359 housing units in 117 properties. The first three housing projects, built in the late 1930s, included Jane Addams, Julia C. Lathrop and Trumbull Park Homes. They were all part of Roosevelt's New Deal programs to provide affordable housing for low-income families and combat blight.

CHA provides homes to more than 50,000 families and individuals, while supporting healthy communities in neighborhoods throughout the city. It has utilized the flexibility of the MTW agreement to test innovative, locally-designed strategies that use federal dollars to more efficiently help residents become self-sufficient and to increase housing choices for low-income families. In 2000, 15% of work-eligible heads-of-household were employed. Now more than 58% are employed. CHA is a municipal not-for-profit corporation, governed by a Board of Commissioners consisting of 10 members. The commissioners are appointed by the Mayor.

The authority is one of 40 (out of 3,300) public housing agencies participating in HUD's MTW Demonstration Program. The authority's original MTW Demonstration Agreement was executed with HUD in February 2000 and was amended and restated in 2008. Congress extended the authority's agreement through 2028. The MTW Agreement gives the authority latitude in implementing its transformation plan via the exemptions from many existing HUD related public housing and voucher rules, and allows for more flexibility with how they use federal funds. In addition, it incorporates numerous waivers and modifications of HUD administrative, regulatory and/or legal requirements which further support the authority's transformation plan.

Revenue Defensibility
Demand for public housing remains strong within the city of Chicago and any changes in the rents that PHA's are able to charge would be unlikely to materially affect demand. CHA recently

completed their five-year strategic plan along with a five-year capital and operating program. This plan expands from 2018-2022. The authority has delivered a diverse range of housing assets that are high quality and in high demand. As of June 30, 2018, the authority has delivered approximately 24,000 units towards its goal. The overall portfolio is comprised of approximately 11,000 family units, 11,000 senior/elderly units, and 2,000 supportive housing units. The authority plans to deliver an additional 1,000 units in 2018 for an overall total of 25,000 housing units. Average occupancy for the units over the past three has been at 96.7%.

CHA administers 47,000 housing choice vouchers, which accounts for 92% utilization rate of the program. Based on the Institute for Housing Studies at DePaul University in Chicago report, “2018 State of Rental Housing in Cook County,” the growth in renters is leveling off, but there are still about 182,000 more people who need low-cost housing than there are affordable apartments in Cook County. The report explains that since 2012, the number of affordable rental units in Chicago has declined by more than 10% while demand for affordable housing has declined by less than 5% over the same period. CHA had a total of 108,922 households on their waitlists at the beginning of FY 2018.

Given the core mission and industry standard for rental rates for PHAs, CHA’s pricing characteristics coupled with the makeup of its current portfolio drive the authority’s midrange revenue defensibility. Like all PHAs within the U.S. with public housing or Section 8 units, rental rates are set using residents income levels to create affordability. This limits flexibility in raising revenue through rental income.

Currently, rental income is roughly 5% of CHAs total revenue, which is in line with industry standards. CHA sets its rental rates using HUD guidelines. HUD sets the lower income limits at 60% and very low income limits at 30% (for public housing) of the area median income (AMI) for the county or metropolitan area in which residents reside. CHAs current portfolio consists of 23,810 public housing units.

The authority applied for, and HUD accepted, applications for CHA to participate in the RAD program allowing the conversion of over 10,000 of its public housing units to project based Section 8 with 20-year housing assistance payment (HAP) agreements, or to mixed-income properties utilizing HCVs. To date CHA has converted 2,815 units to RAD. Upon transformation of the portfolio Fitch expects that CHA will have more flexibility in the pricing characteristics as revenue from the properties, via partnerships with private developers as an equity member, show a return on the units from either mixed-income properties or fees associated with administering the PBV or HCV programs that will maintain affordability in the converted units.

The income levels for those units converted must adhere to other HUD regulated programs such as section 8 and low income housing tax credit (LIHTC). Those projects are likely to have eligible income limits of 60% of AMI for units deemed affordable. CHA’s overall conversion of public housing units to RAD will become realized within the next two to five years as projects are converted.

Operating Risk

CHA, like all public housing authorities in the U.S., receives an operating grant deposited into the authority’s operating fund. The operating fund is available by formula distribution to PHAs to cover operating and management costs. Funding eligibility is offset by the amount of expected tenant rental revenue. In FY 2017 CHA received a total of $178 million for operations. CHA has received a five-year average operating grant in the amount of $170 million. The cost to operate the units and the grant provided fluctuates based on the number public housing units in the portfolio along with the overall budget allocations to HUD programs from the appropriations committee within congress.

While the HUD grant is not anticipated to cover the entire operating cost for the authority, it covers a very significant portion, on average 85% operating expenses from 2013-2016.

CHA can use operating funds for operating and management costs, including administration, routine maintenance, anti-crime and anti-drug activities, resident participation in management, insurance costs, energy costs, and costs, as appropriate, related to the operation and management of mixed finance projects, as well as repayment of debt service to finance rehabilitation and development of public housing units. CHA has full discretion in how it allocates this grant in its operating fund. CHA may leverage operating funds to make capital improvements through the operating fund financing program by pledging a portion of their operating reserves to make future debt service payments. CHA may also leverage operating funds to enter into energy performance contracts, by pledging, in accordance with section 30 of the U.S. Housing Act of 1937 and, with HUD's approval, to use energy savings for debt service payments.

Resource Management Risk

CHA manages its resources via its MTW plan approved by HUD along with its five-year strategic plan. To obtain MTW status CHA had to demonstrate solid and robust financial management, allowing them the flexibility to expend the federal revenue stream that makes up 91% of the CHA's balance sheet, as they see fit. CHA has no supply constraints for labor or resources in terms of amount and cost. The authority's average number of employees was 651 in FY 2017 and is set to stay at this level. Wages and salaries are assumed to increase by 3% each year while fringe benefit rates are expected to remain unchanged. Total personnel costs were estimated at$61.2 million in FY 2017. With increases CHA budgeted for FY 2018 a 4.7% increase over FY 2017. The authority's pension contribution is over 100% funded and has been at least 100% of the actuarially determined contribution for the past three years.

The preparation of the authority's Annual Budget is the culmination of a seven-month budget process, which begins in May and ends in November of each calendar year. CHA's budget is organized into 12 divisions: Executive Offices, Internal Audit, Legal Services, and Office of the Inspector General, Finance, Investment Management, Administration, Procurement, Property Office, Capital Construction & Development, Housing Choice Voucher and Resident Services.

CHA has demonstrated a history of successful capital planning and execution. The authority has adequate mechanisms for capital planning and funding, and has demonstrated generally effective management. Capex benefits from documented assessment and aligns to plan in a reasonable way. Capital expenses are primarily covered by a variety of funding mechanisms including the capital fund grant provided to the authority by HUD for capital projects. As CHA develops newer units the expense for capital repairs are expected to decline.

Financial Profile
CHA's available funds, defined as cash and investments not permanently restricted, have declined in recent years, but remained robust at $224 million at year end 2017. CHA's liquidity cushion has remained well above 1.0x over the past five years.

Lower grant funding from HUD in FY 2017, as a result of prior overfunding, contributed to the decline in liquidity, as well as to lower Fitch-calculated FADS. Income generated from public housing activities has been relatively consistent year over year, with rental income from public housing being at or slightly above $51M over the past five fiscal years. During the same period, the proportion of revenue from public housing rents has been between 5%-7% of total revenue. CHA, like most PHA-MTW authorities, receives more than 90% of their revenue from HUD subsidies in the form of various grants. Whereas CHA's FADS averaged approximately $130 million over the period

2013-2016 reflecting consistently strong grant funding, lower funding in 2017 resulted in FADS of only $59 million.

CHAs leverage profile has remained low in recent years as available funds have exceeded total debt obligations. Fitch's five-year forward scenario analysis indicates that the authority's leverage and financial profile should remain strong, even after considering the proposed issuance of the 2018AB general obligation bonds. Fitch expects FADS to migrate higher toward historical levels beginning in 2018, based on year to date results, which should support of ratio of net debt to FADS of between 3.0x and 4.1x through 2022 even through a temporary stress in CHA's revenue base.

Asymmetric Additive Risk Factors
Debt Profile

CHA issued $25 million in taxable Build America Bonds (BABS) in FY 2010 that were special obligations of the authority. The bonds are fully amortizing and debt service is level at around $1.80 million a year. The debt was backed by the full faith and credit of the CHA, consisting of all revenues and funds pledged for the payment of debt service. The bonds were issued to take advantage of HUDS energy use and cost reduction incentives. The proceeds were used for the removal of 50 year old boilers/controls domestic hot water heaters, asbestos abatement and disposal and demolition of existing equipment, such facilitates to be replaced by 85% efficiency boilers/controls and hot water heaters. This resulted in the installation of remote monitoring devices at 22 of the authority's developments affecting 4, 8111 residential units.

The authority maintains a $20 million line of credit from Federal Home Loan Bank of Chicago at an interest rate not to exceed 2.5% for a period not to exceed 36 months from the time of lending. The line of credit is collateralized by cash and investments held by CHA. Proceeds from the line of credit are designated for the authority's unit acquisition program. In 2016, the Board approved a resolution to expand the use of funds borrowed under this line. There was an outstanding balance of $3.0 million and $3.35 million at Dec. 31, 2017 and 2016, respectively.

The authority also maintains an unsecured, $20 million line of credit, from BMO Harris Bank N.A. at an interest rate not to exceed 2.0% for a period of 12 months. Proceeds from the line of credit are designated for the authority's acquisition of the former Presbyterian Homes senior housing units. There was an outstanding balance of $20.0 million and $19.0 million at Dec. 31, 2017 and 2016, respectively.

Governance and Management

CHA is governed by a 10 member board of commissioners including a board chairperson. Members are appointed by the Mayor and confirmed by City Council. At least two commissioners are CHA residents. In the last few years, numerous board members have been appointed in order to strengthen the board as well as due to members stepping down after reaching the maximum five-year term. Board members bring a broad range of experience and are deeply rooted in public service.

Day-to day operations are managed by an executive team that includes the chief executive, chief operating officer, chief financial officer, chief investment officer, chief administrator, chief legal officer, chief development officer and chief property officer. Most of the executive staff joined CHA or have taken on their respective role since 2015. This is the result of a review to refocus the team on strategic change and to help drive their mission and build new partnerships involving people, process data and systems and to create a more efficient and effective structure. Each team member brings extensive experience reaching all facets of the sector and maintains a strong relationship with HUD and key stakeholders. The chief executive has over 35 years' experience in the industry and has recently renewed his contract with CHA for the next two years.

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[Is This The Real Reason For Chicago's Pension Obligation Bond Proposal?]

Why is Chicago pursuing issuing $10 billion in bonds to remedy its pension funds' woeful underfunding? The answer, we're told, is that the city hopes to earn money with an investment return greater than the interest rates they'll be paying to investors for these bonds. But the real reason — or a significant contributor to their motivation — may be entirely different: due to the nature of pension accounting for government benefits, their real objective may be to keep the plans' valuation interest rates high by avoiding a poorly-funded-plan "penalty" interest rate.

Here's the background:

Continue reading.

Forbes

by Elizabeth Bauer

Aug 28, 2018

[Emanuel Defends $10 billion Pension Bond Plan.]

Mayor Rahm Emanuel on Wednesday offered a spirited defense of his controversial plan to sell more than $10 billion in pension obligation bonds to minimize the need for another punishing round of post-election tax increases, even as he insisted that a final decision has not yet been made.

Mayoral challenger Paul Vallas has urged the City Council to stop that train from leaving the station to avoid putting Chicago taxpayers in what he called a "financial straightjacket."

Former Police Board President Lori Lightfoot, who's also running for mayor, has likewise demanded that Emanuel "slow down the process and open it to public scrutiny." She wants a detailed plan subject to an independent analysis, followed by "multiple public hearings" and "substantive debate."

On Wednesday, Emanuel made his first public comment about the massive borrowing that has municipal finance experts waving red flags.

"I've asked my staff to explore all options to achieve the goals of retirement security without overburdening our taxpayers. It would be equally reckless not to explore options … to avoid a significant tax increase when you can minimize that and shore up peoples' pensions. If we didn't do that, we wouldn't be doing our jobs," Emanuel said.

"So I've asked everybody to explore all available options and think creatively out of the box. One of the things I won't do is kick the can down the road."

Vallas has argued that kicking the can is precisely what Emanuel is doing.

It allows the mayor to wait until after the election to spell out which taxes he intends to raise when the five-year ramp to actuarial funding will end and taxpayers will be on the hook to keep city employee pension funds on the road to 90 percent funding.

By 2023, the city's contribution to all four funds will nearly double — from $1.2 billion this year to $2.1 billion, according to the city's annual financial analysis.

Asked Wednesday about Vallas' claim, Emanuel fell back on the same argument that prompted the long-simmering tensions between Emanuel and Mayor Richard M. Daley to boil over last spring. At the time, William Daley demanded that Emanuel "put on his big-boy pants" and stop blaming his older brother for the $2 billion avalanche of tax increases imposed, just to begin to solve Chicago's $28 billion pension crisis.

"I didn't create this problem. That's all I've got to say. I'm here in asking the public and trying to figure out, how do you ensure people's retirement, which was not done before. And how do we ensure that we don't let the cost explode to taxpayers," the mayor said.

"I think it's a responsible thing because we've had a lot of irresponsible decisions made. The responsible thing is to explore options that achieve both goals."

After joining the mayor at a ribbon-cutting ceremony for the new Chicago Architecture Center, Ald. Brendan Reilly (42nd), vice-chairman of the City Council's Budget Committee, said he, too, has "reservations" about the pension borrowing that would dwarf the city budget.

"Versions of this idea have not gone well in other municipalities. That's why the details of this proposal are so important," Reilly said.

"If this is truly a different type of deal than other cities have done, then we need to see that on paper and understand the numbers and how those work. The last thing we want to do is saddle taxpayers with even more liabilities on the back end of this deal."

Emanuel points with pride to having identified dedicated funding sources for all four city employee pension funds. But Chicago taxpayers have paid a heavy price.

They have already endured a parade of property tax increases for police, fire and teacher pensions; two increases in the monthly tax tacked on to telephone bills; and a 29.5 percent surcharge on water and sewer bills.

If Emanuel decides to forge ahead, the city would take a portion of its $28 billion in pension debt and finance it at an interest rate considerably lower than the 7-to-7.5 percent annual rate of return assumed by the four city employee pension funds.

Last week, Chief Financial Officer Carole Brown told aldermen the city may sell even more than $10 billion in pension obligation bonds if there's enough available city revenue to support it. Brown has not explained what the city's fallback would be if the market tanks.

She promised a final decision on whether to proceed by early September.

The Chicago Sun-Times

By Fran Spielman

08/29/2018

[Chicago Mulls $10 billion Debt Sale to Fill Pension Funding Hole - Here's Why It's a Bad Idea]

Fiscally-strapped Chicago may issue $10 billion of pension obligation bonds to help pay down a $28 billion gap

As Chicago considers a multibillion sale of pension obligation bonds, analysts say such bonds have rarely succeeded at topping up unfunded public pensions, and are historically linked to fiscal stress and municipal debt defaults.

"Generally, most muni analytics folks don't look upon pension bonds favorably," said Alan Schankel, municipal strategist for Janney Montgomery Scott.

Pension obligation bonds, or POBs, have been connected with high-profile municipal defaults in California's San Bernadino and Stockton, as well as Detroit. At the state level, issuers of POBs including New Jersey and Connecticut, and the territory of Puerto Rico, have seen a decline in their pension funding ratios and suffered downgrades to their credit rating as a result, noted analysts at Municipal Market Analytics. Illinois, in fact, issued pension bonds in 2003 that only temporarily brought up funded ratios.

Continue reading.

MarketWatch

by Sunny Oh

Aug 22, 2018

[In Unusual Move, Fifth + Broadway Developer Seeks $25M in Tax-Exempt Bonds from MDHA.]

Concrete is finally rising from an enormous pit at the site of Nashville's former convention center, but the developers still have a $25 million hole in their financing plan.

The team led by longtime Nashville developer Pat Emery has asked the Metropolitan Development and Housing Agency to issue tax-exempt bonds to finance a portion of the project.

It would be an unprecedented arrangement for a Nashville redevelopment project, and may be a sign of trouble for the delayed high-profile development, now five years in the making. Nashville taxpayers have a large stake in the success of the $450 million office, retail and residential development at the corner of Fifth Avenue and Broadway, considered the city's most prime commercial real estate. City leaders targeted the site for development after the 2013 opening of Music City Center.

Continue reading.

Nashville Tennessean

by Mike Reicher

Aug. 19, 2018

[Illinois Prepares to Borrow After Moving Off Precipice of Junk.]

- **Preliminary yields are about 30bps lower than April deal**
- **Illinois's 30-year bonds over AAA are near tightest since 2015**

Illinois is poised to reap lower borrowing costs as it returns to the municipal-bond market for the first time since pulling back from the brink of becoming the first junk-rated U.S. state.

Illinois is offering $920 million of general-obligation refunding bonds for yields ranging from 3.05 percent to 4.41 percent, according to three people familiar with the terms who declined to be named as the pricing isn't final. The preliminary yields are about 30 basis points lower than the state's deal in April, according to data compiled by Bloomberg. Proceeds from the negotiated offering will also pay termination payments to banks to cancel interest-rate swap agreements and eliminate Illinois's derivative exposure, bond documents show.

Bondholders and rating companies have praised Illinois's progress. Spreads on the worst-rated state's 30-year bonds over benchmark debt tightened to the lowest since March 2015 after Moody's Investors Service lifted its outlook to stable from negative last month. It's the first time Illinois has been at that level since December 2012, according to Moody’s.

The so-called Illinois penalty, or extra yield that investors have long demanded to own the state’s debt, has receded from the high of nearly 3 percentage points in June 2017. The premium was 1.4 percentage points on Monday.

“They’ve shown some progress with a successful budget,” said Gabe Diederich, portfolio manager for Wells Fargo Asset Management, which oversees $39 billion of state and local bonds, including Illinois debt. “At the same time, I think the yield penalty is certainly not going to evaporate with this deal given some of the continued work that lies ahead for the state.”

Illinois’s fiscal woes are far from over. The budget, while enacted before the July 1 start of the 2019 fiscal year, has a $1.2 billion structural gap, and the state is struggling with $137 billion of unfunded pension liabilities, according to bond documents.

Debt Swaps

The deal will “de-risk” Illinois’s portfolio by refinancing $600 million of variable-rate debt from 2003 into fixed-rate, according to S&P Global Ratings, which rates the deal BBB-. Proceeds will also terminate interest rate swaps that Illinois originally entered into to hedge risk associated with the variable-rate bonds, S&P said.

The variable-rate debt was backed by six letters of credit that were going to expire in November 2016, and Illinois refunded that with proceeds from bonds sold to four banks under direct purchase agreements. Those agreement are set to expire in November, according to S&P. As of Aug. 1, the termination payments were estimated at $74 million, bond documents show.

There’s “clear market recognition” of the budget progress, said Neene Jenkins, a vice president and municipal analyst at AllianceBernstein, which oversees $42 billion of state and local bonds, including Illinois debt.

“I recognize both the tremendous amount of progress the state has made relative to last year and the challenges that still face the state moving forward,” said Jenkins, who is looking at the deal. “They have a lot of work to do.”

The effects of the record two-year impasse that wrecked havoc on Illinois’s finances haven’t disappeared. That political stalemate drove unpaid bills to a record $16.7 billion. That backlog is now about $7.8 billion, reduced because the state borrowed $6 billion in November to pay it down.

“We are optimistic because the state is in a better fiscal position today with enactment of a full-year budget,” Elizabeth Tomev, a spokeswoman for the governor’s office, said in an email. “The ratings agencies have acknowledged our efforts to address our pension burden and are encouraged by the budget’s passage into law.”

Slim Calendar

Wednesday’s bond sale comes amid a much smaller issuance calendar compared to last week. U.S. state and local governments are scheduled to sell about $4 billion of debt this week, compared with about $12 billion last week. Illinois’s offering is the largest long-term deal this week, according to data compiled by Bloomberg. Texas is scheduled to sell $7.2 billion in short-term notes on Wednesday.

The offering comes amid ongoing demand for high-yield paper in a low-rate environment. Investors added $244.2 million to high-yield municipal funds in the week ended Aug. 15, according to Lipper US Fund Flows data. Those funds have seen inflows in nine of the past 10 weeks.

“They still pay a penalty because of their history and because of the uncertainty going forward,” said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state and local debt, including Illinois bonds. “They’re definitely headed in a better direction, but there’s still a lot of things that need to happen for the situation to materially improve.”

Bloomberg Business

By Elizabeth Campbell

August 21, 2018, 10:30 AM PDT

A Year After Devastating Storm, Houston Area Votes on Record Bond.

- **Measure would provide $2.5 billion to flood mitigation efforts**
- **Effort to place referendum on ballot got bipartisan support**

A year to the day after Hurricane Harvey ravaged the Gulf Coast of Texas, residents there head to the polls to decide a $2.5 billion bond referendum for critical flood control projects in an area that the Category 4 storm plunged underwater.

Harris County officials purposely chose Saturday’s anniversary for the election, seeking to bring out voters and quickly cash in on matching federal funds. Proceeds from the bond, if approved, would finance about 237 projects, including repairs to flood-damaged drainage infrastructure, buyouts of flood-prone properties and channel modifications to improve the flow of storm water. It’s the largest bond measure in the county’s history.

The vote comes as coastal cities around the country are facing the threat of catastrophic infrastructure damage from storms exasperated by climate change. Last year, the U.S. was hit by three major storms that virtually destroyed Puerto Rico’s electric grid, flooded Texas with record rains and ripped into Florida, sending the sea into the streets of Miami. The number of deaths is still uncertain and the storms racked up losses totaling more than $200 billion, the most ever.

For Houston Mayor Sylvester Turner, the vote is one of the most important decisions residents there will make. “We can’t afford to wait any longer. We cannot afford to get this one wrong,” he said during a press conference earlier this month.

A poll by the University of Houston found that 55 percent of residents support the bond referendum even though it would result in a 1.4 percent property-tax increase for the average homeowner in Harris County, the nation’s third most populous. Just 10 percent of those surveyed said they would vote against it, while a third were undecided.

Before Harvey, the Houston area had never experienced flooding of the magnitude caused by the storm as it lingered over land for four days, dropping record rainfall. Even experts were unprepared. The National Weather Service had to add two colors to its graphics when mapping the storm movement because of the unprecedented amount of rain.

The National Oceanic and Atmospheric Administration estimates Harvey caused $125 billion in damages, making it the second costliest storm in recorded U.S. history behind the $161 billion in damages inflicted by 2005's Hurricane Katrina, according to Moody's Investors Service.

"It will not accomplish everything we need to accomplish. We need to recognize that," Judge Ed Emmett, head of the county commissioners court, the governing board for Harris County, said during a meeting in June prior to placing the measure on the ballot.

The storm was too much for the Harris County Flood Control District and its $120 million annual budget. "We just have a lot of ground to cover, a lot of infrastructure to maintain and a lot of problems to solve and $120 million doesn't go that far," said the district's director of operations Matthew Zeve.

Taking Action

Harris County isn't alone in asking voters to back bond sales to cope with climate change.

In 2012, Seattle voters overwhelmingly approved a $290 million debt measure to rebuild the Elliott Bay seawall that protects the downtown waterfront. In the San Francisco Bay area, residents approved a tax to fund a $500 million restoration of tidal marshes, which act as a buffer against storm surges. Following Hurricane Irma last year, Miami voters approved $400 million in bonds to finance projects to protect the city against the impact of global warming.

The Union of Concerned Scientists found that sea level rise, driven primarily by climate change, puts hundreds of thousands of homes and commercial properties in the U.S. at risk of being flooded at least 26 times per year by 2030. The incessant deluges would depreciate property values, erode infrastructure and eventually diminish tax revenue, causing local credit ratings to sour and making it more difficult to finance projects needed to contend with rising sea levels.

"The more that we wait the worse the effects of climate change will be," said AllianceBernstein LP's Eric Glass, who manages the firm's $365 million municipal-impact portfolio. "And the bigger investment in climate change we will have to make."

Bloomberg Markets

By Danielle Moran

August 24, 2018, 6:30 AM PDT

— With assistance by Sophie Alexander, Brian K Sullivan, and Joe Carroll

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No Conspirators or Smoking Gun in Puerto Rico Report: Joe Mysak

- **Good intentions, binge borrowing created muni debt debacle**
- **No one thing doomed Puerto Rico; it was everything combined**

The 608-page investigative report prepared for Puerto Rico's Financial Oversight & Management Board isn't exactly a whodunit.

Who was responsible for Puerto Rico borrowing its way to bankruptcy? How was it even possible for the island to build up $74 billion in bonded debt and $49 billion of unfunded pension liabilities, a burden that is described as "catastrophic"?

Well, nobody, really. Or everybody. Puerto Rico’s debt debacle, as recounted here in almost excruciating detail, was, so to speak, a crime without criminals. It was committed over more than a decade, very slowly and for the most part in plain sight.

For years, until that summer day in 2015 when Governor Alejandro Garcia Padilla declared on the front page of the New York Times that the debt was not payable, analysts and observers had to keep two conflicting premises in their heads.

The first was that Puerto Rico would repay its bonded debt, no matter what the financial or humanitarian cost, because that’s what municipalities do. The second was that the territory’s debt per capita, a multiple of that carried by the most indebted mainland states, was absurd and unsustainable. Now we know that only the second was valid.

The report, prepared by independent investigator Kobre & Kim LLP, is critical of the island’s leadership and lawmakers and processes, but only up to a point. It’s the same with the bond lawyers and bankers, advisers and analysts. Everything, it seems, was done with the best of intentions.

Consider, for example, the credit-rating companies. Couldn’t the analysts involved been more aggressive in shutting down Puerto Rico’s borrowing binge? “We have not seen any evidence to establish that the credit rating agencies did not genuinely believe that contemporaneous circumstances justified their assigned ratings,” the report says.

Or take the Government Development Bank, which enabled so much of the borrowing to go on. “The evidence we examined does not support the conclusion that current or former GDB officials violated any applicable ethics restriction in connection with relevant Puerto Rico-related transactions.”

Didn’t the island violate its own constitutional debt limits? “The evidence we reviewed supports the conclusion that Puerto Rico employed a reasonably robust process for these Debt Limit Calculations,” the report says. “We did not find any evidence that Puerto Rico’s government personnel believed that Puerto Rico’s interpretation of the Constitutional Debt Limit was wrong or that Puerto Rico performed the Debt Limit Calculation incorrectly.”

And so on. The chapter on Puerto Rico’s use of interest-rate swaps is the usual catalog of horrors, and there is a banker who does not recall a lot, but Puerto Rico wasn’t alone in its enthusiasm for the things.

The enormity of the Puerto Rico blowup seems to demand conspiracy theories to explain it. You won’t find them in the Final Investigative Report.

Bloomberg Business

By Joe Mysak

August 21, 2018, 12:26 PM PDT

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

New Jersey P3 Legislation Expands Opportunities for Major Infrastructure

Projects, Including Roads: Ballard Spahr

New Jersey has enacted legislation that greatly expands the pool of public agencies authorized to enter into public-private partnerships (P3s) for capital projects in the state, in order to address growing infrastructure needs.

Only public colleges and universities were authorized to use P3s in New Jersey prior to Governor Phil Murphy signing Senate Bill No. 865 on August 14.

SB 865 authorizes local governments, school districts, public authorities, and state and county colleges to enter into P3s for capital projects. The new law also allows for statewide road or highway P3 projects, as long as a project includes an expenditure of at least $10 million in public funds or any expenditure of solely private funds.

With billions in upgrades needed throughout the state, the new law is expected to generate a significant number of new projects. New Jersey has 21 counties, 565 municipalities, and nearly 600 school districts in addition to hundreds of public authorities. The state recently ranked as one of the country's 10 worst for infrastructure.

Projects proposed under SB 865 must be submitted to the New Jersey Economic Development Authority (NJEDA) for review and approval, and are also subject to review and approval by the State Treasurer. NJEDA and the State Treasurer's Office will oversee New Jersey P3 projects. In accordance with the new law, NJEDA will post on its website the status of each P3 project.

SB 865 requires local public input and finance controls for any project proposed under the legislation, as well as land use and financial approvals. The process begins when a public agency issues a Request for Proposals (RFP).

Solicitation, Procurement, and Criteria

Under SB 865, a public entity, which may include a local government unit, school district, state government entity, and state or county college, will issue a request for proposals (RFP) with no more than a 45-day response period. The public entity must have qualifying proposals from at least at least two private entities in order to select one.

NJEDA will review all completed project applications and request additional information as needed. The application must include, among other things, a long-range maintenance plan and a long-range maintenance bond, and must specify the expenditures that qualify as an appropriate investment in maintenance.

The criteria for assessing the projects described in the application include:

feasibility and design of the project;
experience and qualifications of the private entity;
soundness of the financial plan;
adequacy of the required exhibits;
adequacy of the long-range maintenance plan;
evidence of a clear public benefit; and
a resolution by the applicable public entity of its intent to enter into P3 agreement for the project.

The procurement process cannot begin until NJEDA approves the application.

After the proposals have been received, and any public notification period has expired, the applicable public entity will rank the proposals in order of preference. The public entity will consider professional qualifications, innovative engineering, architectural services, cost-reduction terms, finance plans, and the need for public funds to deliver the project.

Following the procurement process, but before the public entity enters into a P3 agreement, the project and the resultant short list of private entities is submitted to NJEDA for final approval. NJEDA shall retain the right to revoke approval if it determines that the project has "substantially deviated" from the plan submitted, and retains the right to cancel a procurement after a short list of private entities is developed if deemed in the public interest to do so.

P3 Agreements

SB 865 establishes specific requirements for P3 agreements, including provisions that building construction projects contain a project labor agreement and affirming that the agreement and any work performed under it is subject to the provisions of the Construction Industry Independent Contractor Act. Each worker employed for the construction, rehabilitation, or building maintenance service of facilities by a private entity under a P3 agreement must be paid not less than the prevailing wage rate for such worker's craft or service in accordance with the New Jersey Prevailing Wage Act.

A project with an expenditure of under $50 million developed under a P3 agreement includes a requirement that precludes contractors from engaging in the project if the contractor has contributed to the private entity's financing of the project in an amount of more than 10 percent of the project's financing costs. If the agreement includes the lease of a new project in exchange for upfront or structured financing by the private entity, the term of the lease may not be for a period greater than 30 years.

Tax-Exemption

SB 865 provides that as long as a P3 project used in furtherance of the purposes of the applicable public entity is owned by or leased to a public entity, foreign or domestic nonprofit business entity, or a business entity wholly owned by the nonprofit business entity, then P3 projects under SB 865 are exempt from property taxes. The law further states that, notwithstanding any section of law to the contrary, P3 projects are not required to make payments in lieu of taxes. The project and land where it's located are not subject to the applicable provisions of law regarding the tax liability of private parties conducting for-profit activities on tax-exempt land, or the applicable provisions of law regarding the taxation of leasehold interests in exempt property that are held by nonexempt parties.

Costs

SB 865 requires that prior to the commencement of work on a project, the private entity establish a project-specific construction account that includes the funding and/or financial instruments that will be used to fully capitalize and fund the project. The legislation requires that the private entity appoint a third-party financial institution to act as a collateral agent, manage the construction account, and maintain a full accounting of the funds and instruments in the account. The funds and instruments in the construction account must be held in trust for the benefit of the contractor, construction manager, and design-build team involved in the project, and will not be the property of the private entity unless all amounts due to the construction account beneficiaries are paid in full.

The legislation states that, if required by the applicable public entity, the private entity shall assume responsibility for all costs incurred by the applicable public entity before execution of the P3 agreement, including costs of retaining independent experts to review, analyze, and advise the applicable public entity on the RFP.

SB 865 provides that, when there is a substantial opportunity for innovation for a particular P3 project and the costs for developing a proposal are significant, stipends may be used. The public entity may elect to pay unsuccessful proposers for the work product they submit in response to an RFP. The public entity's use of any design element contained in an unsuccessful proposal will be at the sole risk and discretion of the public entity unit and shall not confer liability on the recipient of the stipulated stipend amount.

After payment of the stipulated stipend amount, the applicable public entity and the unsuccessful proposer shall jointly own the rights to, and may make use of any work product contained in the proposal, including the technologies, techniques, methods, processes, ideas, and information contained in the proposal, project design, and project financial plan. The use by the unsuccessful proposer of any part of the work product contained in the proposal shall be at the sole risk of the unsuccessful proposer and shall not confer liability on the applicable public entity.

Ballard Spahr's P3/Infrastructure Group is a leader in representing government and private sector developers, investors, and lenders in innovative public-private projects that range from transportation systems and energy facilities to military and public housing.

www.ballardspahr.com

August 20, 2018

Houston's Multi-Billion-Dollar Bet to Survive the Next Harvey.

On August 25, the anniversary of Hurricane Harvey's landfall, Harris County will vote on a $2.5 billion flood-control bond package that one disaster expert calls "a first step."

August 25, 2017, is a date certain to be remembered as one of the worst in Houston's history. But officials are hoping that August 25, 2018, will stand out as the day the city took a giant step toward securing its long-term future.

On Saturday, one year on from Hurricane Harvey's landfall on the Texas coast, Harris County residents will decide whether to approve a $2.5 billion bond package that proponents say will deliver funds for crucial flood mitigation and prevention projects.

"This vote is one of the most important votes that the people of the City of Houston will cast," Houston Mayor Sylvester Turner said at a press conference. (Houston is the seat of Harris County.)

Continue reading.

CITY LAB

TOM DART

AUG 23, 2018

NJ Bill Authorizing Assessments, Bonds to Fund Replacement of Lead-Contaminated Water Lines Signed into Law.

(TRENTON) – Legislation sponsored by Assembly Democrats Eliana Pintor Marin, Cleopatra Tucker and Wayne DeAngelo authorizing municipalities to levy special assessments, and issue bonds, to replace certain lead-contaminated water service lines, has been signed into law.

"This law will put us one step closer to ensuring that our drinking water is safer to drink and lead free," said Pintor Marin (D-Essex). "In Newark alone, there are approximately 15,000 homes in which the water service lines connecting the property to the city's main water line are lead. This can lead to contaminated home drinking water."

"The impact of lead in plumbing systems can have adverse effects on public health," said Tucker (D-Essex). "This law will move us in the right direction by improving these plumbing systems, providing cleaner drinking water and producing better health outcomes."

"Clean drinking water is essential," said DeAngelo (D-Mercer/Middlesex). "This will help municipalities finance projects that will help replace lead-contaminated pipes to ensure the quality and safety of our drinking water."

Under current law (R.S.40:56-1), if a municipality engages in a project that is categorized as a "local improvement," the municipality may assess the cost of the project on local property owners in the vicinity who benefit from the project. The law (A-4120) signed today by Gov. Murphy adjusts language in R.S.40:56-1 to ensure that the replacement of certain lead-contaminated home service connections fall within this category, allowing those projects to be assessed as local improvements.

The law also amends a section of the local bond law to allow municipalities and counties to issue 30-year bonds to fund the replacement of lead-contaminated house connections to publicly-owned water systems. Specifically, these bonds will fund replacement of lead-contaminated house connections from the distribution main onto privately-owned real property, and into the privately-owned structure.

The law also amends the County and Municipal Water Supply Act, and the municipal and county utilities authorities law to provide that the public entities operating under those laws are not prevented from undertaking projects to replace lead-contaminated service connections, regardless of possible private service connection ownership.

The provisions of this law will only apply to service line replacement projects that are: (1) undertaken as environmental infrastructure projects; and (2) funded either by loans from the New Jersey Infrastructure Bank, or by loans issued through the Department of Environmental Protection.

By NJ ASSEMBLY DEMOCRATS

August 24, 2018 at 10:25 PM

Federal Lawsuit: Stockbridge Claims Creating City of Eagle's Landing Violates Voter Rights, Bond Credibility

Lawyers for the city of Stockbridge, Georgia, claim in a federal lawsuit that a plan to carve off parts of the city to form a new, wealthier, whiter city impairs its citizens' right to vote and harms the city's ability to pay municipal bond obligations.

The lawsuit was filed Monday against the state of Georgia, Gov. Nathan Deal and other state officials. It comes just days after Capital One Public Funding—one of the nation's largest issuers of municipal bonds—filed a similar lawsuit seeking to stop the referendum to create the new city of Eagles Landing from moving forward as planned in November.

Deal signed legislation in May allowing for the creation of Eagle's Landing, in part from land currently in Stockbridge. The new city's formation must first be approved by local voters, and a referendum is planned for November's midterm elections. Stockbridge residents outside the proposed new city won't get a vote.

If created, Eagle's Landing would take approximately one-third of Stockbridge's residents and about half of its tax revenue.

Christopher Anulewicz, an attorney representing Stockbridge, said the city's lawsuit centers on three claims. "Two of them deal with voting rights, one of them deals with the right to have integrity in our contracts," he said.

Anulewicz said the creation of Eagle's Landing would bring African-American voters from a majority voting bloc in Stockbridge to a minority position in the new city and would hurt the city's obligation to pay bond debts taken out in 2005 and 2006, thereby harming an existing contract between the city and its lenders.

A Henry County Superior Court judge in July declined to issue an injunction stopping the vote from proceeding. The city is appealing the ruling.

Vikki Consiglio, chairman of the committee for the city of Eagle's Landing, dismissed the lawsuits and said that proponents were pushing forward to the vote in November.

"Anybody can file a lawsuit for anything," Consiglio said. "A lawsuit has already been filed, and the courts have ruled in our favor."

"This is all about the vote and them trying to do everything they can to stop the vote," she said. The lawsuit filed by Capital One Public Funding, says the company currently holds $11.75 million of bonds from Stockbridge, which mature in 2031. It says that the creation of Eagle's Landing will shrink Stockbridge's tax revenue by half, thereby "severely reducing" the "collateral that was contractually promised and pledged to (Capital One Public Funding)."

It follows a report issued by Moody's Investor Service in May that said the creation of Eagle's Landing would be "credit negative for local governments in Georgia generally because they establish a precedent that the state can act to divide local tax bases, potentially lowering the credit quality of one city for the benefit of another."

Residents pushing for the new city say they are driven by a desire to secure better city services, increase property values and attract high-end businesses. But opponents of Eagle's Landing, including several elected officials from the area, say race is a factor.

Stockbridge, about 20 miles southeast of Atlanta, is predominantly black, while the proposed city of Eagle's Landing would have a higher proportion of white residents.

By BEN NADLER | Associated Press | August 22, 2018 at 01:58 PM

[Chicago Has Another Bond for You.]

The city may try to paper over its pension woes with new debt.

If Chicago politicians applied as much cunning to solving their fiscal problems as financially engineering their way out of them, the city would be a triple-A credit.

Last year we wrote about Chicago's scheme to reduce its borrowing costs by floating low-interes- -rate bonds securitized by sales tax revenue. Investors snapped up the bonds, which fetched a triple-A rating from Fitch and yields as low as 2.22%. By comparison, Chicago's junk-rated general obligation bonds landed above a 6% yield.

But junk by any other name is still junk, and Chicago's finances have continued to erode even as property taxes soar to pay for pensions that remain woefully underfunded. Last year the city smacked homeowners with a 10% increase and this year they will have to pay 2.75% more. Mayor Rahm Emanuel is preparing to run for re-election next year, and he'd rather not raise taxes again.

So he's now considering a plan by Michael Sacks, CEO of asset management firm GCM Grosvenor, to issue $10 billion in bonds to backfill the city's pension funds. The details will have to be worked out, but the idea is to transfer the investment risk from workers and retirees to creditors while exploiting interest-rate arbitrage.

Chicago would presumably issue the bonds at a lower rate than the 7% expected return on its pension fund assets. Over time this would supposedly add to pension fund assets. In the short term, dumping $10 billion into the pension funds would also reduce the city's annual pension payments since liabilities would appear to be smaller.

Caveat, creditors. The cities of Detroit and Stockton and San Bernardino in California defaulted on their pension obligation bonds in Chapter 9 bankruptcy. Stockton's bond insurers got 50 cents on the dollar. Puerto Rico in 2008 issued $3 billion in pension bonds. But Congress in 2016 passed legislation allowing the commonwealth to wriggle out of those obligations. Hedge funds have sued the federal government and are demanding that U.S. taxpayers bail them out.

Like those other pension bonds, Chicago's version would also have to be financed every year out of city revenues. A chunk of sales tax revenue is already earmarked for other bonds. If revenues shrink in the next recession, pension bondholders would compete with city services for payment priority. Who do you think wins if the city has to start laying off police officers to pay bondholders who have been getting 5% or 6% a year?

Investors might be willing to take these political risks if they can snatch a hefty enough interest-rate premium. And if they haven't learned from the experience of Detroit and Puerto Rico, they will deserve whatever political haircut they eventually get.

THE WALL STREET JOURNAL

By The Editorial Board

Aug. 17, 2018

S&P: New Jersey's Revised School Funding Formula Leads To Mixed Results For Districts.

S&P Global Ratings believes about 5% of the New Jersey school districts it rates are left with aid awards significantly lower than amounts included in districts' adopted budgets due to changes to state aid allocations in the adopted fiscal 2019 state budget, and this could pressure ratings.

Continue Reading

Aug. 10, 2018

Environmental Impact Bonds Could Help Pay for Louisiana Coastal Restoration.

Environmental impact bonds can help restore Louisiana's coast more efficiently than previous methods of funding, according to a report released Tuesday by the Environmental Defense Fund.

The bonds are a financing tool in which repayment to investors is linked to the achievement of a desired environmental outcome. In this case, the outcome is sustained wetlands that help curb land loss and provide risk reduction for coastal residents and businesses. The bonds can be scaled and replicated to support efforts across Louisiana and beyond to help areas coping with sea level rise, land loss and damaging storms.

In the study, the EDF and Quantified Ventures will pilot the program on restoration efforts near the Belle Pass-Golden Meadow Marsh Creation project adjacent to Port Fourchon.

The organization said the bonds will allow coastal projects to be constructed more quickly than waiting on other money sources. The bond would be repaid through future BP oil spill settlement payments.

"Using environmental impact bonds provides Louisiana the opportunity to put more capital to work now and to find new sources of capital," said Steve Cochran, associate vice president for coastal resilience at EDF. "Those are great outcomes for Louisiana's coastal communities and can provide a model for other coastal areas around the world."

The state will lose 4,000 square miles of land in the next 50 years if nothing is done, according the EDF. That would add to the 2,000 square miles of land loss that has occurred since the 1930s. The state has a vision for restoring and protecting its coast through its $50 billion Coastal Master Plan, but it has identified only $9 billion to $12 billion of the money needed to fully implement the plan.

The director of coastal resilience at EDF, Shannon Cunniff, said that the bonds work like other bonds but come with a bonus.

"These bonds are a new form of pay-for-success debt financing," said Cunniff. "The big difference is that the repayment of the bond depends on the extent to which the desired environmental benefits are achieved."

The director said a third-party will be used to help define exactly what would qualify as meeting the desired benefits. The investors will get a bonus if the project exceeds the defined goals.

"Environmental impact bonds can be a big-time game changer for Louisiana's disappearing coastline. This (bond) will have major implications for coastal restoration efforts around the world," said Eric Lestinger, founder and CEO of Quantified Ventures.

To help assess the feasibility of using the bonds for Louisiana's coastal restoration efforts, EDF brought in Quantified Ventures. The firm was instrumental in designing the nation's first environmental impact bond, which financed the restructuring of the Washing, D.C., Water and Sewage Authority.

"We looked at 31 coastal restoration projects across the coast at their potential economic benefit," said Cunniff.

The EDF representatives said they picked the Port Fourchon area because of the site's role in the offshore oil industry.

"It's a great port in terms of the local, regional and national economy," said Cunniff. "All of these factors made it an ideal location for facilitating the piloting of the partner payer transaction."

The bonds would allow the state to use its money more efficiently by building wetland restoration projects sooner, involve local owners who benefit from restoration and reward high-performing wetland projects and the contractors who build them, according to the EDF.

"Environmental impact bonds provide the state of Louisiana with another outcome-based performance tool that can help us speed up coastal restoration while lowering costs and involving local partners in financing those efforts," said Johnny Bradberry, the Louisiana Governor's Executive Assistant for Coastal Activities. "This approach to bonding shows that (the state) is looking to innovate on all sides of our business: the projects, the procurement and the financing."

The report outlines the next steps the state has to take to test the bonds, noting that many steps – including establishing credit rating, resolving any issues with Gulf oil spill money and determining the bonds' tax-exempt status – are the same as those necessary to pursue a more traditional bond.

By Scott McLendon

Aug 14, 2018

New Jersey Governor Murphy Signs New Public-Private Partnership Law.

A bill signed into law by Governor Murphy expands the use of public-private partnerships to develop essential projects and grow the state's economy.

Senate President Steve Sweeney says those partnerships helped colleges get private capital to build new facilities, and the bill he sponsored will give the state, county, and local governments more flexibility to advance critical infrastructure projects.

"Public-private partnerships are the most important thing we could be doing in the state. As the governor calls for a stronger fairer economy, this is one the pieces that will actually build that. With private sector ingenuity, technology they can do it better."

Jack Kocsis is CEO of the Associated Construction Contractors of New Jersey. He says the law has the potential to spur development of much needed public works projects and create additional work opportunities.

“It really has the ability to advance New Jersey’s economy. It really demonstrates that New Jersey is serious about working with private entities to actually attract capital to improve our infrastructure.”

Governor Murphy expects the new law will enable vital projects to replace water lines and upgrade the transportation infrastructure without putting a burden on taxpayers.

“Many of them would stretch government entities far beyond the ability of taxpayers to pay, but this newfound ability and flexibility will go a long way to allowing us to get vital statewide and community-focused improvements off the drawing boards and into reality.”

The legislation provides for financial oversight and approval of the partnership agreements by the State Treasurer.

WBGO.COM

By PHIL GREGORY • AUG 14, 2018

New Jersey Governor Signs Bill Modifying Sewer and Water Connection Fee Calculations Into Law.

On August 10, Governor Murphy signed into law S1247/A2779, which amends the sewer and water connection fee law in several ways to address existing inequities regarding connection fees (or tapping fees) (the Law). Then-Governor Christie previously pocket-vetoed a substantially similar bill earlier this year, but the bill made it back through the legislature and onto Governor Murphy’s desk. The Law establishes certain credits and reductions for sewer and water connection fees, including for all affordable housing.

New Jersey sewer and water laws have frustrated developers for many years because they are outdated and charge connection fees based on math that is not transparent. Sewer and water connection fees are typically an important line item in a developer’s pro forma. This Law will be welcomed by both residential and commercial developers.

Most notably, under the prior statute, public housing authorities and non-profit organizations building affordable housing projects (but not for-profit developers) were entitled to a 50 percent reduction in sewer and water connection fees for new affordable unit connections to the sewer and water system. The Law amended this section of the statute to expand to all affordable housing (including for-profit developers) the 50 percent reduction in new connection fees for affordable units and the credit against the connection fee for affordable units previously connected to the sewer and water system that were demolished or refurbished.

Additionally, the Law generally allows for credits to be applied to connection fees for a reconnection of certain disconnected properties that were previously connected to the sewer or water system for at least 20 years and have not been disconnected for more than five years. The credit is calculated based on several factors, including but not limited to, whether the reconnection does not require any new physical connection or increase the nature or size of service or expand the use of the system, or whether a connection fee was previously paid for the existing use.

For properties already connected to the sewer and water system, the Law allows local or regional authorities to charge a new connection fee for an addition, alteration or change in use that "materially increases" (as defined in the Law) the level of use and imposes a greater demand on the utility system, but does not involve a new physical connection of the property to the system. The connection fees for any new or additional connections are still imposed.

This Law is a first step in addressing some of the shortcomings of the existing sewer and water laws. 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 real estate team.

Day Pitney Alert

August 14, 2018

Day Pitney Author(s) Craig M. Gianetti Nicole M. Magdziak

Chicago's Fiscal Storm.

The deeply indebted city, with bonds already rated as junk, considers borrowing billions to cover its pension costs.

When Chicago issued half a billion dollars in new bonds late last year, some investors balked, though the offering was designed to protect them by guaranteeing that they would be paid with tax revenues that Illinois sends to its biggest city. "It's an untested model," the research head at Gurtin, a municipal bond firm, said of the offering—Chicago's first under a new state law. Ominously, he worried that if Chicago defaults, it was unclear how much protection holders of the new debt would really get.

Even as Chicago grapples with nightmarish violent crime, the city faces imposing fiscal challenges. The city, which says that it will collect about $8.5 billion in local revenues this year, is burdened by an astounding $28 billion in unfunded pension liabilities and another $9 billion or so in money that it owes to general-obligation bondholders, as well as billions more in other debts. Chicago's bonds, graded as "junk" by analysts, are among the lowest-rated of any major municipality. That forces the city to stretch the limits of municipal finance, seeking innovative techniques that might get new borrowers on board, but at the potential expense of taxpayers and holders of Chicago's other debts. It's becoming increasingly difficult to see how this ends well in the Windy City.

Chicago's latest fiscal scheme is already making headlines at home and in municipal-finance circles. Late last week, Chicago's chief financial officer and a financier close to Mayor Rahm Emanuel proposed the idea that the city would borrow $10 billion through a bond offering to shore up its pension system, using a dedicated revenue stream in order to persuade investors to come on board. The plan would seek to offset the pressure that the city faces from accelerating pension payments that it must make in coming years. Chicago's pension costs have doubled in the last decade—from $416 million in 2008 to $1 billion last year—and that's just 42 percent of what it should be paying to fund new retirement credits that workers are earning, and to wipe out its debt. Under a long-term plan, the city must double its pension payments again over the next five years, and then keep increasing payments steadily every year for the next 30 years. Even then, the plan would get the system back to only 80 percent funded, if everything else about the system's projections stays on course.

Chicago's bond offering would raise money for the pension system, where the money can then be deposited in financial markets to earn returns. The idea sounds simple. Chicago could borrow the cash, officials predict, by issuing bonds that pay between 5 percent and 5.5 percent annually. The city's pension system, meanwhile, projects that it will earn between 7 percent and 7.5 percent annually in the market over the long term. By simple math, earning 7 percent on money that costs you just 5 percent is a winner. "It would be irresponsible for me not to look at it," Chicago CFO Carole Brown told the press last week.

The problem is that those kinds of returns are far from a sure thing. That's why pension bonds have been behind some of the biggest fiscal meltdowns in recent years. Stockton, California, for instance, borrowed $125 million in 2007 to bolster its underfunded retirement plans and gave the money to California's public-pension system to invest. The system's investment professionals promptly lost more than a quarter of the principal, exacerbating an already-emerging crisis, which provoked city officials to file for bankruptcy. Detroit, eyeing the same kind of sharp increases in pension payments that Chicago faces, created a complex pension-financing scheme in 2005 to raise money by circumventing Michigan's limits on municipal debt. After the market crashed in 2008, the deal blew up. A financial manager brought in to clean up the mess took one look at Detroit's retirement obligations and hauled the city into federal bankruptcy court.

Brown justified considering the maneuver because the city can't reasonably dig its way out of its pension mess with taxpayer dollars. She's right: Chicago has already raised taxes by more than $800 million in the last few years to bolster pension payments. Even so, the system's funded ratio keeps dropping. If the $28 billion that Chicago is missing from its pension system existed, and was earning 7 percent in the market, the city would be garnering nearly $2 billion a year in new capital. That's money that—based on the design of the pension system—it's supposed to be earning. The missing investment returns, however, amount to far more than taxpayers can make up, so despite Chicago's best efforts, its pension situation keeps deteriorating. Brown said that the city needs to replace some of that missing money; if it can't, then Chicago's pension-funding status will fall even lower when the next market downturn occurs. But the Detroit and Stockton examples illustrate how things can get even worse with a big loan and a bad market bet.

The big losers in all this may be taxpayers and borrowers of previous Chicago debt, who should be looking with panic at the city's maneuvering. Chicago is now guaranteeing the debt of its newest bondholders by dedicating specific tax dollars to repay them. Detroit did the same thing, pledging revenues from casino taxes to reimburse some lenders. Those lenders did get paid in full during the bankruptcy, but other Detroit bondholders, including some who held Detroit's general-obligation debt, previously thought to be among the most secure forms of municipal debt, took a big loss, or "haircut," when the city went bust. With every new, secured deal that Chicago engineers, the risks for holders of the city's older debt grows.

Taxpayers face their own risks. Loans secured by dedicated revenue streams tie up tax proceeds. The more a municipality borrows in these kinds of transactions, locking up future revenues, the more it reduces its fiscal flexibility. Detroit eventually wound up in what fiscal experts call "service insolvency," that is, it didn't have enough money left over to spend on basic municipal services. Chicago has a far more vibrant economy than Detroit's, but it also has more pension debt, and Illinois judges have granted public workers extraordinary pension protections. The city isn't even allowed to reduce the rate at which workers earn benefits for work that they haven't done yet, so the pension system just keeps racking up new debt at alarming rates.

There's little precedent for what's happening in Chicago, and no clear path out. Illinois doesn't let cities file for federal bankruptcy protection, and that's unlikely to change because the municipal unions that have so much political power in the Land of Lincoln hate bankruptcy, where contracts can be busted and pension debt cancelled. Still, as economist Herb Stein famously observed, “If something cannot go on forever, it will stop.” But when, and how?

City Journal

by Steven Malanga

August 9, 2018

[What If Banks Were Publicly Owned? In LA, This May Soon Be A Reality.]()

Voters will decide in November whether to take city money out of the hands of big banks.

Trinity Tran is a powerful speaker. Addressing a rally in downtown Los Angeles for New York congressional nominee Alexandria Ocasio-Cortez, the 33-year-old activist and organizer thundered, “We are witnessing the emergence of a solution, from profit and greed to collective prosperity. We can empower our community from the ground up. It’s time to take our power back.”

Tran’s organization, Public Bank LA, is leading the revival of an idea that had largely been discarded until the financial crisis. In November, Los Angeles voters will have the opportunity to approve a public bank for the city. If the measure passes, it would become the first government-owned bank developed in the United States since 1919.

The term “public bank” may confuse some into thinking that Los Angeles is about to create a bunch of branch offices where residents can open a free checking account. The idea is much more ambitious. Public bank enthusiasts want to finance local improvements in housing, infrastructure, and community development by employing the money citizens already pay to state and local governments for services. To them, it’s about democratizing the financial system.

Continue reading.

The Huffington Post

By David Dayen

8/10/18

Huntington Buys Chicago-Based Public Finance Investment Bank.

Huntington Bancshares is buying Chicago-based Hutchinson, Shockey, Erley & Co., a public-finance investment bank and broker-dealer with a focus on municipal securities.

The purchase price was not disclosed. The deal is expected to close before the end of the year.

Founded in 1957, the company serves state and local government and nonprofits. It underwrites and structures debt that funds school construction, infrastructure development and other capital projects.

The company has 11 offices in nine states with 51 employees.

The current management team will continue to be led by CEO Ton Dannenberg. The company will continue to operate under the same name and remain in Chicago.

The Columbus Dispatch

by Mark Williams

Wells Fargo Public Finance Hires Two Ex-Morgan Stanley Bankers.

Wells Fargo Securities, the investment banking and capital markets business of Wells Fargo, has hired two former Morgan Stanley investment banking leaders: Randy Campbell heads the Public-Private-Partnership (P3) and Sports Financing group, and Jim Perry leads the Southern regional group.

Edward Boyles will continue to serve as head of the Atlantic region. Kevin Carney, managing director, and Julie Burger, director, will continue to work on transportation-related P3 financings.

"As we continue to invest in our public finance business, hiring Randy and Jim — both leaders in the industry — will bring additional experience and increased capabilities that we can offer to our clients," said Stratford Shields, head of Public Finance. "Wells Fargo offers full-service financial capabilities, including underwriting and balance sheet solutions through an integrated Government and Institutional Banking platform, which few other firms offer." All report to Shields.

Campbell has 30 years of public and corporate finance experience, working on sports-related, general infrastructure and P3 advisory and financing transactions. He previously headed the sports finance investment banking practice at Societe Generale. As head of Public-Private-Partnership and Sports Financing, Campbell will work on buy- and sell-side advisory and financing opportunities in the P3 business, covering municipal entities, infrastructure firms and other sponsors. He also will oversee the firm's investment banking efforts related to both sports team and stadium financing and will be based in New York.

Perry, a 10-year veteran of public finance, worked as deputy chief of staff and policy director to Mississippi Governor Haley Barbour prior to becoming an investment banker. Perry oversees the seven-state Southern Region, with a focus on complex financing structures for a variety of state and local government entities. He will also be a part of the P3 investment banking team. His territory includes Alabama, Mississippi, Louisiana, Texas, Oklahoma, Kansas and New Mexico and he will be based in Jackson, MS.

Wells Fargo Government & Institutional Banking supports more than 4,000 government, education, nonprofit and healthcare clients across the U.S. The firm organizes specialized commercial banking and capital markets teams under one business, offering an integrated approach to provide the most value for its clients. Government Banking serves federal, state, county and city governments, government agencies and authorities, municipal utilities, school districts and specialty public sectors such as public power, housing, finance and transportation. The Education and Nonprofit group serves colleges, universities, 501(c) organizations, foundations, endowments and national nonprofits. Healthcare Financial Services serves nonprofit hospitals systems, nonprofit healthcare insurers and academic medical centers.

AUG 7, 2018

California Becomes First State to Pledge to Use 'Green' Financing to Combat Climate Change.

SACRAMENTO – California's treasurer has signed on to a document committing to to fight climate change through a strategy using green financing.

"President Trump may dial up his efforts to mislead the American people into believing climate change is a hoax created by the Chinese, but we Californians laugh at such lunacy because we know – without doubt or reservation – that the fate of the planet is at stake. Building critical public infrastructure and a future that does not depend on fossil fuels is now deadly serious business," California Treasurer John Chiang said to a gathering of policymakers and top-level executives at the Milken Institute California Policy Summit in Sacramento on Tuesday.

While speaking with attendees, Chiang signed the "Green Bond Pledge." A declaration with broad and far-reaching impact, states and cities across the nation are being urged to take the pledge that would commit them to a strategy that will finance infrastructure and capital projects that meet the challenges of climate change with "green bonds," or green financing.

"Treasurer Chiang is taking smart action to strengthen the market for climate-friendly bonds," said California Governor Edmund G. Brown Jr., who is hosting the Global Climate Action Summit in San Francisco in mid-September. The summit will showcase actions – including the Green Bond Pledge – states and regions, cities, companies, investors, and individual citizens are taking to realize the goals of the historic 2015 Paris Agreement.

Those signing the green bond pledge agree that climate change poses an existential threat and that the rapid growth of a green bonds market will not only meet the unique challenges the world faces, but will do so while making communities more economically competitive, prosperous, and productive.

"As the world's fifth largest economy, California will lead the way and help finance as much new clean infrastructure as we possibly can," said Chiang. "While Washington continues to deny the irrefutable science that proves climate change, the Golden State has embarked on an unstoppable path to reduce the dangerous effects of greenhouse gases and build a future that is climate resilient."

Next, the governor and treasurer are establishing a working group to develop and implement a green bonds strategy to fulfill the commitments outlined in the Green Bond Pledge.

Green bonds may be sold by governments, as well as by private entities, to finance projects that have positive environmental or climate attributes. The projects can range from clean transportation to renewable energy.

The American Society of Civil Engineers estimates the U.S. currently has a multi-trillion dollar shortfall in funding its infrastructure needs in the coming decades. In California alone, independent reports estimate the shortfall will exceed $400 billion over the next 10 years.

The green bond market started in 2007 with bonds issued by the World Bank and the European Investment Bank. By 2017, both California and New York had issued more than $4 billion in bonds to finance such things as clean water projects, green schools, mass transit, land preservation, and green housing. The state is now looking to build on that start and help grow a much more robust market for green bond financing.

The Green Bond Pledge aims to help establish the market and accelerate its growth. The pledge was developed and designed by international climate finance and environmental groups.

Treasurer Chiang has devoted considerable energy and time to unlocking the potential of the green bond market. His office has handled more than $2.2 billion in green bonds for mass transit, clean water, and pollution control projects, as well as for Kaiser Hospital green buildings, and a rice-straw fiberboard plant. The treasurer's senior team will also be discussing green bonds with Chinese provincial government officials in the fall.

In 2016, Treasurer Chiang conducted a five-city, national listening tour, meeting with market experts and investors to identify barriers and challenges to growing the green finance market. In February 2018, he convened a green bond symposium with the Milken Institute and tasked its blue-ribbon Financial Innovations Lab® with developing actionable paths to creating a more robust green bonds market. The result was two ground-breaking studies. The first, issued in 2017, identified the barriers and challenges to growing the green bond market. The second was unveiled today.

Chiang added, "Today's report provides strategies and solutions aimed at turbocharging a new and growing financial market that can help provide more affordable capital to not only meet California's growing infrastructure needs, but also steel ourselves against wildfires, rising sea levels, and extreme weather."

The report issued today includes, among its suggestions, improving market standardization, defining what is green, and streamlining pricing. It concludes that, "Because California is widely recognized as a leader in environmental sustainability, pioneering efforts to streamline the green bond market can serve as a model for other states and countries.Building public infrastructure with future generations in mind is a must, not just in California, but everywhere on the planet."

A copy of the Green Bonds Pledge can be found here.

CALIFORNIA TREASURER'S OFFICE | POSTED ON WEDNESDAY, 08 AUGUST 2018 02:15

S&P State Brief: South Dakota

South Dakota boasts a structurally balanced budget, diverse economy, and growing population. Thanks to strong financial and budgetary management through the recession, the state continues to fund its reserves according to its policy to maintain 10% of budgeted expenses.

Continue Reading

Aug. 3, 2018

Puerto Rico Sends Costlier Reconstruction Plan to U.S. Congress.

(Reuters) – Puerto Rico submitted a recovery plan to the U.S. Congress on Wednesday that carries an estimated price tag of $139 billion, which is 47 percent more than the bankrupt U.S. commonwealth requested in November.

The economic and disaster recovery plan allocates the money to housing, water and energy systems, education, transportation, public buildings, communications, planning, municipalities, as well as to the economy and environment, according to Governor Ricardo Rossello's office.

Puerto Rico's severe financial problems, which led to bankruptcy court in May 2017 to restructure about $120 billion of debt and pension obligations, were compounded by destructive hurricanes that hit the island in September.

"Puerto Rico has a unique opportunity to innovate and rebuild in order to become that Puerto Rico we all want," Rossello said in a statement.

He added that the initiatives were aimed at "making us stronger and resilient, while guaranteeing a long-term economic recovery."

Last November, Rossello requested $94.4 billion from Congress to rebuild the island's infrastructure, housing, schools and hospitals devastated by Hurricanes Maria and Irma.

That so-called Build Back Better plan contained a preliminary assessment of damages and an initial estimate of money the island needs to rebuild, according to the statement.

The final plan, which was submitted on the deadline day set in the 2018 U.S. budget act, expanded the scope of the November request and was developed with input from federal agencies, the governor's office said. It was also posted on the internet and subjected to public hearings prior to its submission.

Near-term priorities for the money include restoring Puerto Rico's ailing electrical system, which was devastated by Hurricane Maria, improving emergency preparedness, and repairing public facilities. Long-term objectives include stopping emigration and boosting economic growth.

By Reuters

Aug. 8, 2018

(Reporting By Karen Pierog in Chicago; Editing by Daniel Bases and Alistair Bell)

For Puerto Rico, Dream of Financial Recovery Masks Grim Reality.

- **Island has reached two crucial agreements with bondholders**
- **Recession, power grid failures continue to plague the island**

Slowly and painfully, Puerto Rico is inching toward what passes for a financial recovery on the bankrupt and devastated island.

Eleven months after Hurricane Maria, Puerto Rico has reached two crucial agreements with some creditors — key steps toward emerging from what was, even before the storm, the largest municipal bankruptcy in U.S. history. A tentative agreement announced Wednesday sent the price of certain Puerto Rico bonds soaring as much as 30 percent, a boon for anyone who'd bought them at rock-bottom prices only months ago.

Yet for many thousands of ordinary people on the island, recovery — financial and otherwise — remains elusive. Just this week, key stretches of its rickety power grid failed once again; the U.S. Army had to send 13 soldiers to help deal with a backlog of corpses at the island's morgue. And the economy remains mired in a decade-old recession that's sent hundreds of thousands fleeing to the mainland, including many young and educated workers.

"The future of Puerto Rico looks sad and depressing," said Flor de Oro Quinones, a Puerto Rican retiree from the nearby municipality of Trujillo Alto, who was walking through San Juan's business district Thursday. "This is going to be an island of the old and poor."

She's worried regular Puerto Ricans will shoulder the cost of the settlement with bondholders, and that the ongoing debt burden — reduced as it may be — will ultimately accelerate the brain drain.

Painful Austerity

What's more, a court ruling Monday had the island bracing for painful new austerity measures that some economists argue could accelerate a mass exodus to the U.S. mainland. U.S. District Court Judge Laura Taylor Swain sided with a federal oversight board installed by Congress to look after the island's spending, affirming its right to give binding recommendations about the budget. Governor Ricardo Rossello portrayed the decision as an attack on democracy, saying it gave the board the power to unilaterally overrule elected representatives.

The latest preliminary debt-restructuring deal announced late Wednesday involved bonds backed by revenue from sales-tax collections. It was a feature that was supposed to have made them more secure investments than other bonds, and it ultimately made them easier to sell when they went to market over the past decade or so.

Now, with the island short of cash, owners of the debt with top claim to the revenue would recoup 93 percent of their investments under the latest agreement, while subordinated bondholders would get 56 percent. While the securities surged on the news, they still hovered below the proposed deal prices, suggesting the market didn't see the transaction as a done deal.

Late last month, Puerto Rico's beleaguered electric utility struck a deal with its bondholders to reduce its $9 billion of debt.

Just about everyone — including bondholders, who would get new Puerto Rican securities in the latest restructuring agreement — has a stake in seeing Puerto Rico emerge from its decade-old recession. But opinions differ drastically on the most effective path, and whether it's even possible to return to growth amid an austerity campaign.

Steeper Discount

"I'm a little skeptical of sort of the long-term economy and ability to pay debt service," said Craig Brandon, co-director of municipal investments at Eaton Vance Management, which owns some insured Puerto Rico sales-tax bonds, which are known as Cofinas. "I don't think economically things have gotten any better on the island."

Many islanders think the government should have negotiated a steeper discount, and some had held out hope that Puerto Rico's debt could be wiped out completely.

"The more money that goes to debt payment, the less there is for operations and investment here," said Gustavo Velez, a Guaynabo, Puerto Rico based economist and head of consulting firm Inteligencia Economica. "By the looks of it, that agreement is quite generous with the Cofina bondholders, based on the money available and the sustainability of economic growth."

But the deals aren't all about Wall Street profiting at residents' expense. For starters, the sales-tax bonds had been popular among residents themselves, including many working-class retirees who stood to take sharp losses under a less favorable accord.

Rossello held the pact out as good for all parties. He touted it as an example of his commitment to consensual dealmaking — as opposed to pricey and divisive litigation — and said it moved Puerto Rico one step closer toward accessing capital markets again, a key goal for full economic recovery.

"The public policy of my administration has always been to reach consensual agreements with our creditors that do not affect the services that the government provides to the most vulnerable," Rossello said.

Bloomberg Business

By Jonathan Levin and Yalixa Rivera

August 10, 2018, 3:00 AM PDT

— With assistance by Amanda Albright

Puerto Rico's Biggest Bond Challenge Is Yet to Come.

It's still unknown how much the island's full-faith-and-credit pledge is worth.

Puerto Rico has been gradually moving along with its debt-restructuring efforts for months. On Wednesday, the beleaguered commonwealth took a big leap forward, announcing a deal with its sales-tax bondholders.

Make no mistake: This is a significant step. Investors in the bonds, known by the Spanish acronym Cofina, have more money at stake than any of the other groups of creditors that have come to an agreement with Puerto Rico. According to Governor Ricardo Rossello, the deal would save the commonwealth $17.5 billion in interest payments over the life of the securities. While that sounds like a victory, bondholders come out quite nicely, too. Owners of senior Cofinas, with the highest claim on sales taxes, would recoup 93 percent of their investment, while subordinated securities get a 56 percent recovery.

That's way better than what the market was indicating (the bonds soared in price Thursday). And for the senior Cofinas, which traded at less than 40 cents on the dollar at the start of the year, it's an even bigger windfall than what Moody's Investors Service thought way back in July 2015. The credit rater set the expected recovery rate at 65 percent to 80 percent.

Nothing is easy when it comes to Puerto Rico. By all accounts, this was a hard-fought compromise. It's the second significant deal for the island in as many weeks, following an agreement with its power company's bondholders in late July.

But the most-scrutinized deal for the commonwealth — and the $3.8 trillion municipal market as a whole — is still to come.

The fate of Puerto Rico's roughly $18 billion general-obligation bonds, backed by the island's full faith and credit, remains firmly in limbo. In theory, because Cofina securities will now have the first right to 53.65 percent of collected sales taxes, that should free up cash for G.O. debt. Court documents filed in June essentially said as much, adding that the extra funds could also cover essential services.

It's telling, though, that Puerto Rico's benchmark general-obligation bond is still trading at 50 cents. On the one hand, that's the highest price since Hurricane Maria devastated the island more than 10 months ago. But for debt that's perceived to have at least equal standing to senior Cofinas, it has an awfully long way to go to catch up to the announced recovery rate.

It speaks to the uncertainty around what a general-obligation pledge means in times of deep distress. In Detroit, holders of "unlimited-tax" G.O. debt received 74 cents, while "limited-tax" G.O. bonds recovered 34 percent. There really isn't a robust playbook.

Many investors in Puerto Rico counted on two things. First, the commonwealth's constitution, which guaranteed G.O. payments before all else. But in reality, elected officials were always going to provide essential services to its citizens before accommodating Wall Street. Second, that the territory couldn't file for bankruptcy protection and potentially cram down a debt deal. That didn't last, either.

The past year of ultra-depressed prices gives Puerto Rico an advantage. My Bloomberg Opinion colleague Joe Nocera wrote recently about Aurelius Capital Management LLP, which owns $558 million of Puerto Rico's general obligation bonds and wants to get paid in full. But would Mark Brodsky — or any investor, for that matter — really quibble with a 93 percent recovery, like the senior Cofinas? Remember, the benchmark debt was issued in March 2014 at precisely 93 cents on the dollar.

General obligations have always had one chief flaw: there's no clear revenue steam for investors to point to and claim as their own. By contrast, Cofina investors will have a senior lien on the agreed upon portion of sales taxes. A term sheet from Citigroup Inc. projects that revenue will cover debt service more than 2.6 times over, placing the bonds in a similar tier as double-A rated issuers like the Massachusetts School Building Authority and Utah Transit Authority.

The G.O. investors are going to want a similar deal, with all the legally enforceable structures they can get. Because for all the talk of recovery rates, Puerto Rico has a massive recovery of its own ahead. The commonwealth just now conceded that Hurricane Maria killed more than 1,400 people on the island last year, far greater than the 64 in the official death toll. Add that to the mass population exodus that was already taking place, and there's no guarantee that projections about the commonwealth's future will pan out.

In that sense, it seems comparatively easy to dole out various revenue streams. But judging how much Puerto Rico's full faith and credit is worth, after the constitutional guarantee was all but eviscerated? That will be the biggest challenge yet.

Bloomberg Opinion

By Brian Chappatta

August 9, 2018, 8:54 AM PDT

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

S&P State Brief: Alaska

The passage of Alaska's 2019 operating budget marks an important shift in fiscal reform for the state. For the first time, the state approved a $2.7 billion transfer from the Permanent Fund Earnings Reserve Account (ERA) to the unrestricted general fund (UGF) for the year.

Continue Reading

Aug. 3, 2018

Novel Watershed Permit Issued for Cape Cod towns.

The Massachusetts Department of Environmental Protection has issued a first-of-its kind "watershed" permit. Instead of issuing individual permits, the Cape Cod towns of Brewster, Chatham, Harwich and Orleans were issued a joint permit that addresses water quality concerns. None of the towns has a municipal public sewer system, and most homes rely on septic systems. The towns have grown, and the additional septic systems installed have leaked excess nitrogen to the point where fish and their habitats are being harmed.

The 20-year permit, issued after consultation with the Environmental Protection Agency (EPA), allows the towns to reduce nitrogen pollution through efforts like fertilizer reduction and improved aquaculture. Each town has its own nitrogen removal target, and the towns must meet and show progress through reports every five years.

Sidley Austin LLP

by David F. Asmus, Samuel B. Boxerman, Terence T. Healey, Kenneth W. Irvin, Michael L. Lisak and Judah Prero

August 13, 2108

Pennsylvania Supreme Court Continues Rulings Against Municipal Zoning Authority.

On August 3, 2018, the Pennsylvania Supreme Court vacated another municipal zoning decision favorable to oil and gas development. In its per curium order of *Delaware Riverkeeper Network v. Middlesex Township* (N0. 270 WAL 2017), the Supreme Court directed the Commonwealth Court to reconsider its previous decision upholding a local zoning ordinance that permitted oil and gas development in agricultural and some residential areas. This order, accompanied by the Supreme Court's recent decisions in *Gorsline v. Fairfield Township* and *Environmental Defense Foundation v. Commonwealth*, indicates a willingness by the Supreme Court, including four of its newly elected justices, to limit (or perhaps prohibit) drilling in agricultural and residential zoning districts premised upon the Environmental Rights Amendment to the Pennsylvania Constitution.

Here, the Commonwealth Court had upheld the zoning ordinance based upon a three-part balancing test, which was subsequently revoked by the Supreme Court. As such, the Commonwealth Court must now decide the case based upon different criteria. [Interestingly, several unconventional wells have already been drilled pursuant to the challenged ordinance.]

The challengers, like those in the other cases noted above, are strong anti-fracking advocates, who seek to limit unconventional drilling to industrial zoning districts. However, such districts are oftentimes not available for leasing or applicable parcels are too small for the construction of well pads. Further, such restrictions limit the extraction of natural gas from a miniscule portion of the subsurface area within the municipality. On a favorable note to exploration and production companies, the Supreme Court specifically claimed that its recent decisions "should not be misconstrued as an indication that oil and gas development is never permitted in residential/agricultural districts or that it is fundamentally incompatible with residential or agricultural use."

Vorys Sater Seymour and Pease LLP

by Michael K. Vennum

August 8, 2018

Like Hartford, New Haven "Scoops & Tosses"

Governments use a practice known as "scoop and toss" when they're desperate for cash. It brought Hartford to near-bankruptcy.

Now, financial analysts say, New Haven is resorting to the practice — while the mayor promises she has a plan to guard against fiscal blowback.

New Haven takes that step this week, as it refinances its debt for the seventh time in nine years, partly in order to plug a left-over $11.5 million debt from the fiscal year that just ended. Worth $160 million, this refinancing will be the largest in the city's history.

Continue reading.

NEW HAVEN INDEPENDENT

by CHRISTOPHER PEAK | Jul 31, 2018

Chicago Suburb to Be Title Sponsor of Bahamas Bowl Game.

ELK GROVE VILLAGE, Ill. — A Chicago suburb is spending $300,000 to be the title sponsor for a nationally televised college football bowl game in the Bahamas.

Elk Grove Village and ESPN on Tuesday announced the bowl sponsorship for the Makers Wanted Bahamas Bowl. They said the Dec. 21 game in Nassau will mark the first time a non-tourist municipality has sponsored a bowl game.

The game, which was previously sponsored by fast-food chain Popeyes, is one of 14 owned and operated by ESPN Event. The bowl features teams from the Mid-American Conference and

Conference USA.

The move is the village's latest marketing push to expand the reach of its "Makers Wanted" campaign to promote a local industrial park, which officials say has more than 5,600 businesses. The campaign was launched in 2015, and has included a website, billboards, TV and radio commercials, and print ads.

Mayor Craig Johnson said the sponsorship will be "a perfect opportunity to use college football to share our message with the entire country." Richard Giannini, the bowl game's executive director, said the unique sponsorship will allow the village to promote its message to a national audience.

Elk Grove Village is just northwest of Chicago and borders O'Hare International Airport. Village officials said they plan to host a watch party the day of the game for local businesses.

By The Associated Press

Aug. 1, 2018

After Harvey, Houston Hopes to Boost Flood Defenses With $2.5 Billion Bond.

Funds would allow Harris County to complete delayed flood-prevention projects

HOUSTON—A year to the day since Hurricane Harvey slammed into Texas, Houston area residents are set to vote on whether to overhaul the region's beleaguered flood-protection system, an election that local officials have cast as critical to the area's future.

On the ballot in Harris County is a $2.5 billion bond backed by property taxes that could more than quadruple the annual funding available to help shield Houston and the surrounding cities from flooding. The proposal, set for a special election on Aug. 25, is the largest bond measure ever offered in Texas' most populous county. If approved, proceeds from the bond would help fund a range of projects aimed at significantly bolstering the area's aging network of bayous, which serve as a drainage system for the flood-prone county.

At stake, public officials say, is whether Harris County can ever realistically hope to protect itself from another storm of Harvey's might.

"It is the most important local vote in my lifetime," said Judge Ed Emmett, the county's chief executive and one of the architects of the measure. "If Harvey came next week, we'd be in a world of hurt."

The storm caused 36 flood-related deaths in Harris County and flooded more than 159,000 homes, apartments and other dwellings, while also damaging thousands of commercial structures and businesses. But even before Harvey hit, some officials and experts had warned that flooding was going to worsen in the Houston area and that upgrading an antiquated drainage system would be costly.

When disaster strikes, having a safety net like flood insurance, a stable income, or savings can mean the difference between getting back on your feet, and living every day among the wreckage. We profile two families in Houston still recovering from Hurricane Harvey six months after the storm. Local officials said increased funding would allow the county to finally complete flood-prevention projects that have been slowed because of a lack of money, as well as take additional measures it otherwise couldn't afford. More than 200 potential projects have been identified including the widening of bayous, repairing flood-damaged infrastructure and buying out more than 1,000 flood-risk homes.

Matt Zeve, director of operations for the Harris County Flood Control District, said some of the projects the county could finish could have helped thousands of homes flooded during Harvey. If the proposal is approved by voters, the flood control district's annual budget could rise to more than $500 million from $120 million, he said.

There is also the possibility of getting matching federal funds for projects the county can pursue if the bond measure passes, Mr. Zeve said.

According to county estimates, the bond proposal would increase the total property tax by no more than 1.4% for most homeowners in Harris County.

Since June, county officials have fanned out across the Houston area to hold community meetings on the proposal. At those meetings, Mr. Zeve said he saw the lasting effects the days of flooding had on residents.

"There is literally a case of countywide PTSD to this day over Harvey," he said. "I will talk to someone after a meeting, and they will be visibly emotional, crying in front of me. This is very emotional topic for people here."

The measure has largely generated bipartisan support. Judge Emmett is a Republican, while Sylvester Turner, Houston's Democratic mayor, also backs the bond. Gov. Greg Abbott, a conservative Republican who has called for reducing property taxes, approved the county's request to hold the emergency special bond election, a requirement of state law.

Kaaren Cambio, whose home flooded during Harvey, said she at first had concerns that the public wouldn't be given enough of a say on how the money was spent. But after attending a community meeting, Ms. Cambio, who heads a flooding task force for the Harris County GOP, said those concerns were allayed.

"I am never for higher taxes but in this case, this bond is necessary," she said.

Roger Gingell, general counsel, for Residents Against Flooding, a Houston group that advocates for flood prevention measures, said that while he planned to vote for the bond, he had concerns about what projects the money would be used for. Mr. Gingell said he wanted the county to take a more nuanced approach to flood prevention in areas that it had not previously focused on, in addition to emphasizing some of the same bayou widening projects it had in years' past.

"It's pretty clear that we need the money to fund flood prevention infrastructure, but the government at both the city and county level has never articulated a big picture strategy for flooding in the region," he said.

Charles Goforth, president of the Brays Bayou Association, a residential group that works on flood prevention issues and represents 30,000 homes in an area of Houston hit hard by Harvey, said most people he has spoken to are supportive of the proposal.

While some are uneasy with letting local government lead the flood prevention effort, Mr. Goforth said those fears have been eclipsed by an acknowledgment that since Harvey, there's no longer much of a choice.

“We live here and this is a situation we’re going to have to keep dealing with. So we have to bite the bullet,” he said.

The Wall Street Journal

By Dan Frosch

Aug. 5, 2018 8:00 a.m. ET

Puerto Rico Power Utility Reaches Deal With Bondholders.

BlueMountain Capital, Franklin Advisers and other bondholders agree to restructuring part of utility’s $9 billion debt

Investors in Puerto Rico’s bankrupt electricity monopoly have struck a debt-restructuring deal, inching the largest public U.S. power utility closer to privatization.

The bondholder settlement announced on Monday would pare down the $9 billion debt owed by the public power utility known as Prepa and mark the most significant restructuring deal negotiated under Puerto Rico Gov. Ricardo Rosselló.

The federal board overseeing Puerto Rico’s finances also supports the agreement, which requires court approval to become effective. The deal gives a bondholder group including Franklin Advisers Inc., BlueMountain Capital Management LLC and Knighthead Capital Management LLC a chance to exit from a roughly $3 billion combined investment that has tumbled in value since the oversight board’s 2016 arrival. A frequently traded Prepa bond maturing in 2040 was trading at 44.25 cents on the dollar on Monday, according to Electronic Municipal Market Access.

Bond insurers and top-ranking lenders owed billions of dollars more by Prepa aren’t on board with the proposed terms, a person familiar with the matter said. Discussions are expected to continue on the rest of the utility’s debt. The partial settlement is a step toward the oversight board’s goal of breaking up Prepa’s monopoly structure and coaxing new investors to take over its power generation and distribution businesses.

Bondholders would surrender their claims at a discount under the deal and receive two classes of new long-dated bonds in exchange, representing 67.5 cents on the dollar and 10 cents on the dollar. Cutting legacy debt obligations helps Mr. Rosselló ameliorate politically unpopular rate hikes without further imperiling Prepa’s finances.

“The restructuring of Prepa’s debt and obligations is critical to completing our vision for a consumer-centric energy sector with financially viable rates that promote economic development,” the governor said in a statement.

Prepa’s financial problems, decades in the making, are at the center of the U.S. territory’s financial crisis. High electricity bills, driven by Prepa’s legacy obligations and inefficient power plants, have depressed family incomes and economic growth.

Blackouts were frequent while residents went to extreme lengths to curtail their power use. Puerto Rico’s decadelong recession worsened the utility’s finances as business and residential power demand declined.

The oversight board placed Puerto Rico's central government into bankruptcy last year and later voted to move Prepa under court protection as well. Ending its monopoly structure is a priority for many Republicans in Congress who have urged the oversight board and the governor to negotiate with bondholders to avoid lengthy lawsuits over debt repayment.

But creditors had struggled to come up with acceptable terms to tame Prepa's $9 billion debt load as Gov. Rosselló adopted an increasingly populist tone since taking office. The oversight board vetoed a restructuring settlement last year that would have cut bond obligations by 15%, opting instead for a bankruptcy process aimed at wringing more concessions from creditors.

The exodus of Puerto Ricans in the wake of last year's devastating hurricane season further depleted Prepa's customer base while the power grid is being repaired.

The revised agreement saves Prepa 30% more in debt payments compared with the previous version while tying bondholder payments to electricity demand, heightening creditor recoveries if Puerto Rico residents stay on the grid rather than migrate to the mainland U.S.

The deal comes weeks after a purge of Prepa's independent directors and incoming chief executive that left it leaderless at a critical moment. A majority of Prepa's board of directors resigned en masse after Gov. Rosselló demanded they scale back a $750,000 CEO compensation package.

The outgoing directors accused the governor of interfering in their decisions, fanning longstanding concerns in Congress about political meddling in Prepa. An Energy Department official last week urged Congress to depoliticize Prepa by taking board appointments out of the governor's hands.

House Republicans have discussed potential legislation installing federal oversight at Prepa, according to people familiar with the matter, though no such bill has been filed.

The Wall Street Journal

By Andrew Scurria

July 30, 2018 10:25 p.m. ET

Chicago Faces Lowest Budget Gap Since 2007 in Coming Fiscal Year.

- **Pension bills will more than double over next 20 years**
- **Pension debt shrank to $28 billion after stepped up payments**

Chicago next year will see its smallest budget deficit since 2007, a boost for the nation's third-largest city as it prepares to confront escalating pension bills.

The city is projecting a 2019 shortfall of $97.9 million, according to an annual financial analysis released Tuesday. That marks the eighth straight year of narrowing deficits. Chicago will pay $1.18 billion to its four retirement funds in fiscal year 2019, which is up from $1 billion last year, according to the report. Those payments will more than double over the next 20 years, reaching an estimated $2.9 billion in 2039, the report shows.

"The City of Chicago is on firmer financial footing today because of the progress we have made together to eliminate the risky financial practices of the past, address our pension challenges, and reduce our structural budget deficit," Mayor Rahm Emanuel said in a letter at the start of the report.

"This low structural budget deficit is expected and manageable in a government with a nearly $4 billion operating budget."

Chicago's progress comes as municipal-credit quality overall seems to be improving. State and local governments are reaping the benefits of the second-longest economic expansion on record. Minnesota and Michigan recently won rating upgrades, and Illinois and Chicago had their outlooks lifted to stable from negative this month.

Emanuel has made progress, pushing through higher property taxes and utility levies to shore up the city's retirement funds that were on track to run out of money. His plan has the public safety pensions on track to be 90 percent funded by the end of fiscal year 2055, and the municipal and laborers pensions at that level by the end of 2058. As of Dec. 31, the four funds were only about 27 percent funded, after years of inadequate contributions.

Moody's Investors Service, which still considers Chicago junk, cited the city's tax hikes in its revised outlook. Given the levies, Chicago won't face "significant budgetary obstacles" in the next two to three years to cover its rising pension payments, according to Moody's.

The four pension funds were short $28 billion as of Dec. 31, according to the city's 2017 comprehensive annual financial report. That shortfall eased from the previous year when they were short more than $35 billion. The city's move to require higher contributions to the funds led to an increase in the discount rate. That change and other assumptions helped lower the net pension liability, the report noted.

"All in all, the city of Chicago is in a better structural position than prior years," said Laurence Msall, president of the Civic Federation, which monitors state and local finances, "but it will continue to face revenue and expenditure pressures resulting in projected growth in future deficits."

Bloomberg Markets

By Elizabeth Campbell

July 31, 2018, 3:07 PM PDT

Puerto Rico Power Utility Bonds Soar on Restructuring Deal.

- **Debt swap deal with bondholder group backed by U.S. board**
- **Oversight board chief hails deal as 'important milestone'**

The Puerto Rico electric company's bonds surged after it struck a preliminary agreement with bondholders to restructure its crippling debts, marking a major advance in the government-owned utility's efforts to emerge from bankruptcy.

The pact — reached by the island's government, the territory's federal oversight board and a key group of investors — would slash the debt service bills of the Puerto Rico Electric Power Authority more deeply than an agreement the board rejected a year ago. The board said in a statement Monday that it's working to finalize the deal for the power company known as Prepa.

The company's bonds were the most actively traded municipal securities Tuesday, when investors pushed up the price of some of them by nearly 40 percent. Debt due in 2040 jumped to an average of

60.2 cents on the dollar from 43.4 cents Monday, according to data compiled by Bloomberg.

Reducing the utility's $9 billion of debt may push the utility closer to privatization because investors would be cautious about lending needed money to the company if it continues to be run entirely by a government that steered it into collapse, said Matt Fabian, partner at Municipal Market Analytics. Puerto Rico is seeking to sell some of the utility's assets or enter into long-term concession agreements with private operators.

"The board likes this deal because it's going to force the issue of privatizing Prepa," Fabian said. "Investors will always be more careful in lending a Prepa successor money."

The step marks a major stride toward resolving years of negotiations with creditors of the territory's electric company, which was heavily battered by Hurricane Maria last year and has been struggling with management turmoil. While the company had previously struck a deal with creditors, it was rejected over a year ago by the oversight board because of concerns it failed to do enough to modernize the utility and lower residents' costs.

The agreement "is an important milestone and a big step forward towards Prepa's debt restructuring process, which will support the privatization and transformation of Prepa into a modern, world-class utility," Jose Carrion, the chairman of the oversight board said in the statement. "We are hopeful that the terms and financial concessions agreed to with this group of Prepa bondholders can lead to a fair consensual transaction that adjusts their ultimate level of recoveries with the success of the utility."

The latest agreement would require bondholders to exchange their debt for two new classes of securities at a rate of 77.5 cents on the dollar, well above where the securities had been trading.

They would receive one type, which matures in about 40 years and pays 5.25 percent interest, at an exchange rate of 67.5 cents on the dollar. The second — so-called growth bonds that are due in 45 years and whose payments are pegged to the island's turnaround — would be exchanged at 10 cents on the dollar. The deal that was rejected by the board would have given investors 85 cents.

Prepa is still negotiating with other creditors, including bond insurers. The agreement announced Monday included Knighthead Capital Management, Franklin Advisers, BlueMountain Capital Management, OppenheimerFunds, Silver Point Capital, Angelo, Gordon & Co. and Marathon Asset Management, according to a filing with the Municipal Securities Rulemaking Board. The bankruptcy court would also weigh in on any restructuring deal.

The utility still needs to persuade other parties to agree to the plan and it continues to face the challenge of rebuilding an electrical grid that was destroyed by Hurricane Maria. That led to some skepticism about the degree of Tuesday's rally, which followed a run up in the price of the securities this year amid optimism about Puerto Rico's recovery from the hurricane and progress in the island government's own bankruptcy process.

"There doesn't seem to be a long-term solution of addressing how to provide a stable and reliable electrical grid to the island and who is going to pay for that," said Dora Lee, an analyst at Belle Haven Investments, which manages $7.4 billion of municipal debt, including insured Puerto Rico securities.

Prepa's tentative deal has also boosted prices on some Puerto Rico bonds. General obligation debt that's due in 2035 traded Tuesday at an average price of 39.8 cents on the dollar, up from 38.4 cents on Monday.

“Prepa has always been seen as the credit to reach the finish line first in the bankruptcy puzzle,” Lee said. “The closer that Prepa is perceived at reaching its conclusion, the other investors also see their own finish lines coming closer.”

Bloomberg Markets

By Michelle Kaske

July 31, 2018, 6:13 AM PDT Updated on July 31, 2018, 7:59 AM PDT

Philadelphia's Budget: An Example of the Revenue and Expenditure Balancing Act.

Philadelphia’s fiscal 2019 budget discussions highlight what S&P Global Ratings expects will be the ongoing balancing act the city will face over the next several years. City officials will have to address ongoing operational demands, pension costs, and a desire to support the School District of Philadelphia (SDP) with what we view as potential revenue-raising pressure.

Continue Reading

Jul. 26, 2018

WIFIA Program Closes Two New Loans in California.

WASHINGTON, DC, AND CALIFORNIA, AUG 3, 2018 — The WIFIA program has issued its third and fourth loans to Orange County Water District (OCWD) and San Francisco Public Utilities Commission (SFPUC). The San Francisco Public Utilities Commission received a $699 million loan to help finance its innovative Southeast Treatment Plant Biosolids Digester Facilities Project. This is the largest loan issued under EPA’s Water Infrastructure Finance and Innovation Act (WIFIA) program to date.

“Today’s nearly $700 million WIFIA water infrastructure loan reflects a core Administration priority: accelerating investment in America’s water infrastructure in a way that delivers a cleaner, healthier environment and supports a thriving economy,” said EPA Acting Administrator Andrew Wheeler. “This WIFIA loan will enable San Francisco to modernize its wastewater treatment facilities while creating valuable jobs in the community.”

The San Francisco Public Utilities Commission will replace its outdated biosolids digester facilities with modern, efficient technology. The new facilities will transform wastewater solids into high-quality biosolids and biogas. Additionally, the new digesters will be located farther away from existing residences, feature advanced odor control, and will be built to be more resilient to earthquakes.

“Rebuilding our biosolids digester facilities is crucial to realizing our vision to transform San Francisco’s largest wastewater treatment plant into a modern resource recovery facility. With the federal government’s low-cost loan program, we can realize significant savings for our ratepayers and create high quality employment and contracting opportunities in parts of the City that need it most," said SFPUC General Manager Harlan L. Kelly, Jr.

The project is estimated to cost $1.43 billion and EPA's WIFIA loan will help finance nearly half that amount—up to $699 million. According to the San Francisco Public Utilities Commission's estimates, EPA's loan is expected to save the commission up to $398 million through the WIFIA program's low interest rates. Project construction is expected to begin in late 2018 and be completed in 2025.

Additionally, an innovative groundwater replenishment project expansion in Orange County received a $135 million loan to help finance its Groundwater Replenishment System final expansion.

The announcement was made by EPA's Regional Administrator for the Pacific Southwest Mike Stoker at the project's future site on Ward Street in Fountain Valley. Stoker was joined by U.S. Congressman Dana Rohrabacher, Orange County Water District Board President Denis Bilodeau, and Orange County Sanitation District General Manager James Herberg.

"This advanced water recycling and groundwater replenishment project will provide Orange County residents and businesses with an additional local drinking water supply," said Stoker. "Not only will this project protect local water resources, it will make Orange County more resilient to future droughts."

With EPA's WIFIA loan, the Orange County Water District (OCWD) will purify treated wastewater from the Orange County Sanitation District to produce an additional 30 million gallons per day of drinking water, which will be stored in the Orange County Groundwater Basin. This additional drought-proof drinking water supply reduces the region's need to import water, benefits the environment through reduced discharges into the ocean, and increases replenishment of the local groundwater source.

"WIFIA borrowing enhances the Groundwater Replenishment System's viability," stated Bilodeau. "The WIFIA loan program creates another tool in the proverbial toolbox to finance critical water infrastructure projects like ours. The cost of borrowing is less than the private market would have been, which helps make the cost of the final expansion feasible to ratepayers. OCWD is trying to reduce reliance on imported water from the Colorado River and become self-sufficient, but OCWD won't make water at any cost."

The Orange County Water District estimates the project will cost $282 million. EPA's WIFIA loan will help finance nearly half that amount—up to $135 million. Because the WIFIA program offers loans with low interest rates, the Orange County Water District is expected to save up to $16 million compared to municipal bonds. Project construction is expected to create 700 jobs and is scheduled to begin in 2019 and be completed in 2023.

In addition to significant cost savings, a WIFIA loan permits extended repayment terms of up to 35 years, the ability to repay at any time without penalty, subordination in payment priority to other debt, flexibility when the loan is drawn with no interest accrual until funds are disbursed, and the opportunity to use the loan with other assistance like the State Revolving Fund for the remaining 51 percent of a project's cost.

"Having been a proponent of the OCWD's Ground Water Replenishment System project since its inception, I am pleased that the OCWD has received a $135 million Water Infrastructure Finance and Innovation Act loan. This loan will help finance the final expansion of the GWRS, which will increase our drought-proof water supply and provide for the water needs of future generations of Orange County residents," said Congressman Dana Rohrabacher (CA-48).

“Today marks a major milestone for EPA’s WIFIA program,” said EPA Office of Water Assistant Administrator David Ross. “With our loan to the Orange County Water District, EPA has issued over $1 billion in WIFIA credit assistance this year, thanks to the hard work and dedication of the professionals within EPA’s Office of Water.”

WaterWorld

August 3, 2018

Orrick Advises Enterprise Development Authority on Senior Secured Notes Offering and Credit Facility.

Orrick represented the Enterprise Development Authority (the “Authority”), a wholly owned, unincorporated governmental instrumentality of the Estom Yumeka Tribe of the Enterprise Rancheria (the “Tribe”) in connection with its Rule 144A/Regulation S offering of $450 million aggregate principal amount of 12.000% senior secured notes due 2024 (the “Notes”). Wells Fargo Securities acted as book-running manager for the offering. Orrick also advised the Authority on its entry into a $10 million revolving credit facility (the “Credit Facility”).

The Tribe is a federally recognized Indian tribe listed in the Federal Register as the Enterprise Rancheria of Maidu Indians of California. The Authority expects to use the net proceeds from the offering of the Notes to fund the costs associated with designing, developing, constructing, equipping and opening a Hard Rock branded hotel casino outside of Sacramento, to repay certain existing indebtedness and for general corporate purposes, while the Credit Facility will be used for working capital and other general corporate purposes. Hard Rock Sacramento FM, LLC will develop and manage the hotel casino, as well as license to the Authority various trademarks, service marks and commercial symbols associated with Hard Rock hotels, casinos, cafes and music venues.

The Orrick team that advised the Tribe on this transaction was led by public finance partner Townsend Hyatt and capital markets partner Stephen Ashley. Other members of the Orrick team included Lynne Hirata, Noel Pacheco, Maria Bergenhem, Grady Bolding, Thomas Mitchell and Rosalee Mahoney.

July.30.2018

Standard & Poor’s Increases Credit Rating for the State of Michigan from AA- to AA.

On July 24, 2018, Standard & Poor’s raised its credit rating for the State of Michigan’s general obligation bonds from AA- to AA. This upgrade will affect bonds issued by local governments that benefit from State credit enhancement or intercept programs, including programs such as the State School Bond Loan Fund Program and the Michigan Finance Authority’s Local Government Loan Program. For local borrowers participating in one of these programs, including school districts and municipalities, such rating change will trigger a material event filing pursuant to your continuing disclosure undertaking. Financial advisors retained by local borrowers to file continuing disclosure updates on their behalf will likely file material event notices for their clients with outstanding debt issued through one of these programs, advising the Electronic Municipal Market Access system of the rating change. If you are unsure whether you have an obligation to file an update or have not retained your financial advisor to make disclosure filings on your behalf and would like assistance with such a filing.

Miller Canfield PLC – Thomas D. Colis, James Crowley, Ian F. Koffler, Donovan Cheff McCarty, Alan D. Szuma and Amanda Van Dusen

July 30, 2018

Madison to Offer Municipal 'Mini Bonds'

MADISON, WI (Wisconsin Radio Network) – Madison residents can buy in to a special mini bond issuance later this year.

A new program is lowering the price of city bonds to just $500 this fall, and Madison finance director Dave Schmiedicke says that's a good way for residents to get involved directly with city finances. "Which hopefully allow more of our residents to invest in the specific project, a renovation and expansion of the Olbrich Botanical Gardens."

Schmiedicke says that's a price that even smaller investors and city residents can take advantage of. "Here in Madison, I think we value civic action, and this is one way to express that civic action and get a return on that investment."

In all other respects, other than the price, the bonds will be the same as they normally are with a 10 year maturity. Schmiedicke says $2.1 million worth of bonds will be issued.

Interest rates will be determined this fall ahead of the sale in October.

Wednesday, August 01, 2018 10:50 a.m. CDT

A Look at What a Public Bank Could Mean for D.C.

As officials study the idea's feasibility, activist ire against Wells Fargo fuels proponents of a public bank

Could business owners and others in DC soon benefit from a new bank owned and operated by the DC government? With $200,000 put in the city's 2018 budget by the DC Council, officials at the Department of Insurance, Securities and Banking are studying the feasibility of a publicly chartered bank.

What's a public bank?

A public bank is a deposit-holding and loan-making institution created and run by a government — a city, county or state. Leaders of public banks are held to more direct accountability standards than private banks. Important decisions on lending and other bank operations must serve a public mission. Private banks have broadly defined regulatory requirements, such as lending to local communities, as mandated by the federal Community Reinvestment Act. Public banks have been set up to serve more specific, locally determined goals. In DC, this might take the form of loans to small businesses owned by people of color in wards 7 and 8. In California, officials say public banking can support marijuana businesses that have been denied private banking services because of the complex legal environment around the substance.

Financial assistance is already a part of economic development programs in DC, but a public bank would increase the number and complexity of services offered to stakeholders, according to a Department of Insurance, Securities and Banking overview of the feasibility study. A public bank in DC would manage all of the city's financial accounts. This wholesale banking requires the capacity to manage the multi-billion-dollar accounts of corporations and other, smaller banks. Also, a public bank in DC could provide retail products to residents such as checking accounts and auto loans. So, a public bank in DC may be deposit-taking and loan-making.

Continue reading.

The DC Line

By Gordon Chaffin | Aug 1, 2018

Senate Liberals Seek New Puerto Rico Debt Relief.

WASHINGTON — A group of U.S. Senate liberals on Wednesday introduced legislation providing debt relief to Puerto Rico as the island territory struggles to recover from a devastating 2017 hurricane that worsened conditions in an already-suffering economy.

Independent Senator Bernie Sanders and Democratic Senator Elizabeth Warren have joined up with three other liberal Democratic senators in seeking broad debt relief for Puerto Rico and other U.S. territories.

The U.S. commonwealth declared the largest municipal bankruptcy in 2017 under the so-called federal PROMESA law, and is seeking to restructure in court more than $70 billion in debt. It also has another $45 billion or so in unfunded pension liabilities.

"Greedy Wall Street vulture funds must not be allowed to reap huge profits off the suffering and misery of the Puerto Rican people for a second longer," Sanders said in a statement.

Their initiative is not expected to gain traction in the Republican-controlled Congress, but it could provide hints about what Democrats might pursue if they manage to win majorities in either the Senate or House of Representatives in November's congressional elections.

The bill surfaced on the same day a federal judge took up but did not immediately rule on litigation by the Puerto Rican government challenging the ability of its federally appointed oversight board to enforce certain measures through the budget and fiscal plan. A U.S. House committee also held a hearing on management turmoil at the island's bankrupt electric utility.

The Senate bill would give U.S. territories the option to terminate non-pension debt obligations under certain conditions.

It would provide $7.5 billion for Puerto Rican creditors whose debt is terminated, including Puerto Rican residents, banks and credit unions that did business solely in Puerto Rico.

Another $7.5 billion would be set aside for mainland creditors whose debt was terminated, including individual investors.

Backers of the legislation said the $15 billion in Washington funding would not be made available to hedge funds and their investors, bond insurers or financial firms with consolidated assets greater than $2 billion.

Spokesmen for a bondholders group that includes hedge funds and for bond insurer MBIA Inc declined to comment on the legislation on Wednesday.

Congress passed the PROMESA legislation in 2016, which created a seven-member board to manage Puerto Rico's finances.

In U.S. District Court in Puerto Rico on Wednesday, Judge Laura Taylor Swain, who is overseeing the territory's bankruptcy case, also received an update on privatizing the Puerto Rico Electric Power Authority (PREPA). Attorneys for the island's oversight panel said the private market had "significant amount of interest" in taking over PREPA assets and operations.

Meanwhile, the U.S. House Committee on Natural Resources heard from energy, finance and restructuring experts on ways to depoliticize PREPA and make it a regulated and fully functioning utility in order to attract private investment.

"This has been an ongoing problem we need to break this time," said Committee Chairman Rob Bishop, who rejected the idea of federalizing the utility.

Since mid-July, there have been three executive directors either in place or named to oversee the utility's restructuring and the restoration and upgrading of the U.S. territory's electric grid, which was decimated by Hurricane Maria last year.

Although invited, Puerto Rico Governor Ricardo Rossello declined to attend. In written testimony, Rossello disputed allegations of political interference sparking turnover of the utility's executive directors and board members. He said current PREPA head Jose Ortiz has unassailable credentials and has demonstrated in his previous government roles the ability "to put politics aside."

By Reuters

July 25, 2018

(Reporting by Richard Cowan in Washington; Additional reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan; Editing by Daniel Bases, Susan Thomas and Matthew Lewis)

New Jersey May Borrow $450 Mln to Protect Schools From Guns.

- **Borrowing is part of $1 billion sale, including expansion**
- **It could boost state's general-obligation debt by 50 percent**

New Jersey voters in November may decide to raise $1 billion in the bond market, about half of which would be used to protect schools against shootings.

The borrowing initiative — which will also fund expansion programs at vocational institutions — has received widespread support in the legislature, which earlier this month approved putting it on the ballot by a nearly unanimous vote, with just one senator dissenting. Governor Phil Murphy is reviewing the bill and his office declined to say whether he would sign it.

If approved, the borrowing would allow New Jersey to increase its outstanding general-obligation debt by 50 percent to $3 billion, according to the state's latest debt report. Historically, New Jersey has relied on appropriation-backed debt sold through various agencies, with about $33 billion outstanding.

The voter-approved bonds would probably draw strong interest from investors because such securities are scarce and debt service doesn't rely on annual legislative appropriations, said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state and local debt, including some issued by New Jersey.

"For people looking for higher quality, looking for not having to worry about the appropriation, they'd probably get good reception," Solender said.

Student Safety

About $450 million would finance school facility security grants to improve entryways and security systems to defend public schools from mass shootings or attacks.

More than 215,000 students have experienced gun violence at a school since 1999, according to a database of such shootings compiled by The Washington Post. The issue attracted renewed attention after several deadly incidents this year, including one in Parkland, Florida, in February that left 17 dead and another in Santa Fe, Texas, that killed 10 people.

"The safety of the students is paramount," Republican state Senator Steve Oroho, a co-sponsor of the bond bill, said in an interview.

Another $400 million would help vocational institutions expand their facilities and buy equipment to accommodate more students. County vocational school districts had to turn away about 17,000 students in 2017 because of a lack of facilities, according to the legislation.

Employers in the state are seeking more skilled workers, Oroho said. Fulfilling the needs of people who want to pursue a skill and providing employers with more qualified employees will benefit New Jersey in the long run, Oroho said.

"Not all debt is bad debt as long as you get the proper rate of return," Oroho said. "And education will always have a high rate of return."

Increasing the debt means the state will need to pay more principal and interest every year. About 7.5 percent of New Jersey's fiscal 2019 budget, or $2.8 billion, will go toward debt service, not including payments on school-construction bonds, according to state budget documents. Adding another $1 billion of general-obligation debt will increase principal and interest payments by as much as $72.3 million per year, according to a fiscal analysis of the bond bill.

Pension Predicament

While the borrowing initiative would add to New Jersey's debt load, the bigger credit concern for the state is its retirement obligations, said Baye Larsen, an analyst at Moody's Investors Service. New Jersey has about 56 percent of the funds needed to pay current and future retirees enrolled in its state pension plans, as of July 1, 2017. It has an unfunded pension liability of nearly $41 billion.

"The growth in their adjusted net pension liability is going to significantly outweigh the growth in their bonded debt and that is really going to continue to be more of a credit driver for the state," Larsen said.

New Jersey general obligations maturing in 2028 traded Wednesday at an average yield of 2.7 percent, or about 74 basis points more than top-rate municipals, according to data compiled by Bloomberg.

Debt sold in the state gained 0.9 percent this year through Wednesday, beating the 0.05 percent advance in the broader municipal-bond market, according to Bloomberg Barclays indexes.

Bloomberg Markets

By Michelle Kaske

July 26, 2018, 7:08 AM PDT Updated on July 26, 2018, 7:54 AM PDT

[S&P: Is Long Island Power Authority's Fiscal Gain Local Governments' Credit Pain?]

In 2010, the Long Island Power Authority (LIPA) filed property tax grievances with numerous local governments on Long Island, asserting that the property taxes embedded in the payments it makes to National Grid in connection with the power purchase agreements it has with that generation supplier reflect substantial tax overvaluations by local taxing jurisdictions for four power plants.

Continue Reading

Jul. 26, 2018

[CA Pension Fund Earnings Up, but Crushing Debts Remain.]

California's two immense public employee pension funds this month reported investment earnings higher than their assumed rate for the second straight year.

The California Public Employees Retirement System (CalPERS) said its investment portfolio earned 8.6 percent during the year that ended June 30, while the California State Teachers Retirement System (CalSTRS) topped that with an 8.96 percent gain.

That's certainly better than the minuscule earnings the two funds had seen earlier in the decade, but despite public crowing by union advocates, the earnings reports merely underscore the wide gaps between pension promises and assets to pay for them.

For one thing, making money on investments in the past year has been a no-brainer and relative to the stock market and other indices, the performance of both funds was modest.

That's because both were burned badly in the recession a decade ago when their speculative investments tanked and since then, both have adopted safer and more stable investment strategies that have limited upside potential.

Safer may be better in the long run, but modest earnings, by themselves, cannot cover the funds' asset shortages, called "unfunded liabilities." Both have scarcely two-thirds of the assets they would need to cover pension commitments, even assuming they meet their earnings projections of 7 to 7.5 percent a year.

CalSTRS' chief investment officer, Christopher Ailman, put it this way in a statement that accompanied its earnings report:

"We will rank high compared to similar funds, but it is only one year. We need to repeat that performance year in and year out, on average, over the next 30 years."

As they lower investment expectations, CalPERS and CalSTRS have turned to the state and other public employers to close their asset gaps, requiring them to raise their "contributions" by billions of dollars.

CalPERS is increasing its bite on employers on its own, as it is empowered to do, while the Legislature and Gov. Jerry Brown adopted a plan to prevent CalSTRS from slipping into insolvency by increasing payments from the state and teachers modestly while hitting school districts hard, more than doubling their mandatory payments into the fund.

Making the increased payments has caused financial turmoil in local governments, especially cities, and in school districts.

As CalSTRS was reporting its 2017-18 earnings, CALmatters published a deep dive into how pension payments are clobbering the state's school systems, focusing on those in Los Angeles, Fremont and Sacramento.

"Over the next three years, schools may need to use well over half of all the new money they're projected to receive to cover their growing pension obligations," CALmatters' Jessica Calefati wrote, " leaving little extra for classrooms, state Department of Finance and Legislative Analyst's Office estimates show."

"Some districts are predicting deficits and many districts are bracing for what's to come by cutting programs, reducing staff or drawing down their reserves – even though per-pupil funding is at its highest level in three decades and voters recently extended a tax hike on the rich to help pay for schools," she continued.

Schools and local governments are feeling immense stress from ever-rising pension payments even though California's economy has been booming and tax revenues have been surpassing projections.

That's why we'll see dozens of cities and other local governments asking their voters for tax increases in November, and why school officials are pleading with Brown and legislators for more money.

By Dan Walters | July 25, 2018

Federal Aviation Administration Announces that Municipalities May Not Regulate Airspace — Even for Drones

The Federal Aviation Administration (FAA) recently issued a press release clarifying the abilities of municipalities to regulate drone operations in the navigable airspace. State and local governments "are not permitted to have their own rules or regulations governing the operation of aircraft," as it would conflict with superseding federal law, according to the release. The FAA reiterated that "[s]tate and local governments are not permitted to regulate any type of aircraft operations, such as flight paths or altitudes, or the navigable airspace."

However, state and local governments *may* utilize laws traditionally related to state and local police powers in order to regulate land use, zoning, privacy, and law enforcement operations. Hence, state and local governments may generally regulate the locations of aircraft takeoff and landing sites through their land use powers, which includes where drones can take off or land.

The FAA and the federal government's approaches on drone operations continue to evolve. Other issues we're monitoring include counter-drone technology, real-time flight waivers applications, and identification sensor systems.

Harris Beach PLLC

July 30, 2018

U.S. Conference of Mayors and Ohio Mayors Alliance Release Report on Ohio Metro Economies.

The U.S. Conference of Mayors and the Ohio Mayors Alliance today released a report on July 19, 2018 on the importance of Ohio city metro areas to the future growth of the Ohio economy. The report highlights that in 2017, 83.5% of the State's jobs and 86.1% of its wages were generated in Ohio's 14 metro areas. 85.1% of the State's economic output in 2017 occurred in its metro regions. All three economic indicators have risen over the last two decades.

Since 2000 Ohio's city metros accounted for all of the State's job gains and 87% of its economic output gains. During the same period the metro proportion of state jobs is 1.3% higher.

By the end of 2018, the report projects that the unemployment rate in five Ohio metros will be at or below 4.0% (Columbus 3.3%; Cincinnati 3.5%; Dayton 3.7%; Springfield 3.7%; and Lima 4.0%). All but three Ohio metros will have unemployment rates of 5.0% or below.

The report also forecasts that over the two year period (2019-2020) Columbus will lead Ohio job employment growth with an average annual gain of 1.60%. But in the 2021-2022 period, Columbus will be the only Ohio metro with employment gains.

The report concludes that Ohio cannot grow unless its city metro areas do, and that Ohio's regional economies will best be served by aggressively transitioning to new and emerging industries while preserving their manufacturing base.

The report was released in conjunction with the Ohio Mayors Alliance and was prepared by IHS Markit.

Oregon Weighs Record Bond for Housing as Real Estate Prices Jump.

- **Metro put $653 million affordable housing bond on ballot**
- **As people flock to area, home prices are rising out of reach**

The Oregon agency that runs Portland's zoo is behind the biggest bond measure in the state's history to build homes. For humans.

Metro, a municipal entity known for running the Oregon Zoo and natural areas around Portland, is asking voters in November whether they want to borrow $653 million to build and renovate housing for people priced out of the booming local real estate market. The move would expand the purview of Metro, which was created in 1978 to oversee the zoo, as well as land use, transportation and waste management in three counties.

Over the years, Metro, which is the only directly elected regional U.S. government, has expanded its responsibilities. It's a "natural evolution" of the agency to take on affordable housing as an influx of high-income earners puts homes out of reach for many residents, said Nick Fish, an elected Portland commissioner who's helping to lead the bond campaign.

"Working-class families are being priced out of every part of the region," Fish said in an interview. "We're seeing a one strike and you're out economy, where people are one job loss, one medical emergency, one unforeseen crisis away from being on the street."

Up and down the West Coast, cities are grappling with the downside of a nearly decade-long economic boom that's brought skyrocketing residential real estate prices and an increase in homelessness. In November, California voters will consider $6 billion in housing-related bonds on the state ballot, and San Franciscans may tax large businesses to provide services to the large homeless population in the technology-industry hub.

While high housing prices typically boost municipal tax collections, they can also limit economic growth, said Chris Morgan, director at S&P Global Ratings. Amid constrained supply of homes and labor shortages in the construction industry, growth in economic output in the far west — which includes Alaska, California, Hawaii, Oregon and Washington — fell to the third fastest in the U.S. last year from first in 2016, according to an April report from the company.

"We're seeing the cost of housing as potentially representing more of an economic challenge in the near term," Morgan said in an interview.

About 80 people a day are moving to the Portland area, according to a Metro analysis of last year's Census data. The median sale price of a home has risen by 56 percent over the last five years, faster than the 31 percent growth nationally, figures from real estate brokerage Redfin show.

The Metro bond measure aims to create homes for 7,500 people. It can serve up to 12,000 if voters also approve a state constitutional amendment that would allow the proceeds to go to affordable housing developers that work with local governments. Currently, funds from general-obligation bonds can't flow to private entities. Homeowners would pay an average of $5 a month, or 24 cents per $1,000 of assessed property value, to cover the cost of the added debt.

Metro would distribute the funds to its three counties — Multnomah, Washington and Clackamas — based on assessed value. The local governments would decide on projects that best fit their needs, such as easing homelessness in Portland or building senior facilities in Lake Oswego, an affluent suburb, Fish said.

Support is so broad for the initiative that the historically tax-skeptical Portland Business Alliance endorsed it, Fish said.

"The time is right for this," he said.

Bloomberg Markets

By Romy Varghese

July 20, 2018, 9:30 AM PDT

[Fitch: Nacogdoches Hospital (TX) Bondholders Not Insulated from Weak Operations.]

Fitch Ratings-New York-19 July 2018: Recent news that Nacogdoches County Hospital District, Texas (NCHD) has retained attorneys to consider debt restructuring has sparked commentary that this is an example of uncertain bondholder protections in bankruptcy. Fitch Ratings believes this case demonstrates the importance of making a cautious and accurate assessment of the legal protections afforded to bondholders.

BONDS DO NOT MEET HIGH FITCH BAR FOR RATING DISTINCT FROM IDR
The sales tax bonds benefit from an ordinary pledge and security structure for municipal debt and are in our view at risk of automatic stay under Chapter 9 of the U.S. bankruptcy code (the code) and an interruption of payment during the proceedings. There is a plausible argument for special revenue treatment, but we set a high bar for considering debt as supported by special revenues under section 902(2)(E) of the code. (For more information, see "Fitch Rates Marin Healthcare District, CA's Series 2017 GO Bonds 'AAA', dated Aug. 23, 2017.) Even in the event of a stay, an issuer can choose to continue to pay debt obligations while in bankruptcy, and NCHD has that option with respect to the sales tax bonds. Nevertheless, Fitch has rated the debt below investment grade since April 2017, with a current rating of 'CC', indicating that default of some kind appears probable.

RATING MIGRATION REFLECTS WEAK FUNDAMENTALS
In April 2017 we concluded a review that resulted in a downgrade of NCHD's sales tax revenues bonds to 'B'/Rating Watch Negative due to weakness in its revenues and operations, as well as its unwillingness to tap unused property tax capacity to support its operating solvency. We also concluded that the bonds did not meet our high bar for special revenue analysis and had not been issued under a specific state securitization law. In September 2017 we downgraded the rating to 'CC' based on continued deterioration of operations and severely weak liquidity.

In April 2016 Fitch revised its criteria for rating tax supported debt. In that revision we introduced the Issuer Default Rating (IDR) as a measure of an issuer's operating solvency, and we clarified and provided strict limitations on when we felt there was a reasonable basis to rate a dedicated tax supported security distinct from and higher than an issuer's IDR. Ratings could be distinct from an IDR under three legal structures that have clear protection in a Chapter 9 bankruptcy proceeding: "special revenue" obligations under section 902(2) of the bankruptcy code, securities issued through a securitization structure and intercept structures under state law. We also considered in the review whether the untapped taxing capacity of a hospital district or hospital authority should be incorporated into an IDR. In August 2016, we placed ratings related to NCHD and 24 other hospital districts and authorities on Rating Watch Evolving as we evaluated the underlying legal structures.

FITCH REVIEW OF PRIOR LEGAL OPINION
At the time of the initial downgrade and assignment of a 'B' IDR in April 2017, Fitch reviewed a legal opinion provided by outside counsel that concluded that the transaction is essentially a sale of the tax revenues to the bond trustee acting for the benefit of bondholders and not a borrowing by NCHD. Counsel further concluded on that basis that the tax revenues are not property of NCHD and would not be within its bankruptcy estate.

Fitch had two concerns with the analysis that leads to this legal conclusion. One, Fitch does not believe that there is sufficient legal precedent for us to adopt the true sale analysis in our rating based on the Texas statute cited. Further, as the opinion itself indicated, there is no common law precedent that addresses the proper characterization of the transfer of assets by a municipality in this type of situation. Two, as a factual matter, the transaction is described in all offering materials as a borrowing and is reported in the accounting statements of the municipality as a borrowing. There is no indication that the parties intended to treat the transaction as a true sale.

As a result, it is Fitch's assessment that there is not a reasonable basis to support a rating above the issuer's IDR. Fitch will only rate a transaction as a true sale in the context of a specific state statutory scheme authorizing the sale as a part of a comprehensive securitization law such as those adopted in New York and Illinois for tax revenues and other revenue sources in various states. For more information see "What Investors Want to Know: Chicago Sales Tax Securitization" dated Nov. 28, 2017.

ELEMENTS OF SPECIAL REVENUE ANALYSIS
Legal opinions serve as the basis for Fitch's consideration of whether bonds are secured by pledged special revenues. In addition, the following elements must be present that make clear the pledged revenues are not general operating revenues for general purposes of the debtor, sufficiently reducing the incentive to challenge special revenue status in a bankruptcy:

–A statutory scheme limiting the authority to levy a specific tax to the financing of capital projects.

–An express statutory prohibition on use of any revenues from the taxes for operations of the municipality, unless Fitch has a reasonable legal basis by which to determine that the pledged revenues would not be subordinated to operating expenses in a bankruptcy. If any residual revenues can be used for the entity's operations and are at risk of being subject to netting, Fitch will consider them to be general revenues and rate the issue as unsecured debt.

–An identification of specific capital projects in a ballot initiative or in a resolution limiting the use of proceeds of the debt to those capital projects; for refunding bonds, it should be clear that the bonds being refunded meet this criterion.

–A structure in which bondholders do not have a claim on general revenues of the municipality, where the bonds are solely secured by a dedicated tax (general obligation bonds supported by the entity's full faith and credit will typically not meet this criterion).

–A statutory requirement that a governmental official outside the municipality (e.g. the county) collects and remits the tax revenues to the paying agent, placing the funds outside the control and direction of the municipality. A statutory lien on the pledged revenues reduces the incentive to challenge special revenue status sufficiently to substitute for this requirement.
Clarity that the pledged taxes are property of the municipality and would not be considered at any point the property of the entity collecting and remitting the tax revenues; absent this, the rating

would be capped at the collector's rating.

Since NCHD's pledged revenues are a general sales tax available for operations as well as debt service, Fitch had no basis to consider the bonds to be secured by pledged special revenues.

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S&P: Will Wildfires Scorch California's Utilities?

Electric utilities in California are facing operational and financial risks from natural disasters that could potentially weaken their credit quality. In particular, the recent heightened risk associated with potential wildfire-related liabilities is a growing concern and presents an immediate threat to California's regulated electric utilities.

Continue Reading

Jun. 18, 2018

Wells Fargo Takes $8.7 million Arbitration Hit Over Puerto Rican Bonds.

Finra panel says firm and broker are liable for damages, interest, fees and costs

A Financial Industry Regulatory Authority Inc. arbitration panel has awarded clients of Wells Fargo almost $8.7 million over the firm's handling of sales of Puerto Rican municipal bonds.

The panel found that Wells Fargo and Marc Rogers, one of its brokers, are jointly liable for paying Sylvia and Sammy Kaye Duncan and the couple's revocable trust approximately $4.18 million in compensatory damages, $832,000 in interest, $2.7 million in attorney's fees, $500,000 in punitive damages, $206,000 in costs and $102,000 in monetary sanctions.

Finra said that Wells Fargo and Mr. Rogers would be responsible for paying interest on the total of $8,575,767.43 owed to the claimants at the rate of 9% per year from July 19, 2018 until paid in full.

The Duncans claimed that in their sales of the Puerto Rican bonds, Wells Fargo and Mr. Rogers breached their fiduciary duties, recommended unsuitable securities and investment strategies, were negligent, engaged in unauthorized trading and made negligent misrepresentations and omissions, as well as engaged in manipulative and deceptive practices.

InvestmentNews

Jul 20, 2018

San Francisco Issues Wastewater Infrastructure Green Bonds.

Green bond issuer San Francisco Public Utilities Commission (SFPUC) is seeking both domestic and international interest for its new tranches of Climate Bonds Certified green municipal bonds, of approximately $402 million USD. Proceeds will be used to fund selected projects as part of the SFPUC Sewer System Improvement Project (SSIP), including stormwater, flood resilience, sewage treatment, wastewater, and associated control system infrastructure upgrades and is intended to address aging infrastructure, seismic reliability, combined sewer discharges, rising sea levels and localized flooding. Both the Series A and Series C bonds have been certified by Climate Bonds Initiative (CBI) under the Water Infrastructure Criteria.

18 Jul 2018

New York Auctions $1.8 Billion Sales Tax Debt.

- **Second-biggest competitive sale of municipal debt in history**
- **Banks won’t have problem clearing the deal, says Fiera’s Laing**

New York State met eager demand for its debt as it auctioned $1.8 billion of sales-tax bonds Wednesday, the second-biggest competitive sale in municipal market history, according to data compiled by Bloomberg.

Despite its size, the deal was easily digested because of a healthy demand for New York state sales tax bonds in a market starved for paper. Almost $5 billion in debt issued by New York state and local governments is set to be called or mature over the next 30 days, $1.4 billion more than the fixed-rated debt they plan to sell in that period, according to data compiled by Bloomberg.

“New York is picking a good time to bring this deal,” said Guy Davidson, director of municipal investments at AllianceBernstein. “It’s a sellers market.”

Wednesday’s sale was second in size only to a $1.84 billion offering by the New York State Urban Development Corporation last year.

League Tables

JPMorgan won $372.4 million of bonds maturing 2019 through 2023 issued through the Dormitory Authority of the State of New York. Bank of America won $854 million of debt maturing 2024 through 2036. Morgan Stanley won $492.4 million of debt maturing 2037 through 2048. New York also sold a $74 million tranche of taxable debt.

Bonds maturing in March 2028 were priced to yield 0.08 percentage points, or 8 basis points more than top-rated debt of the same maturity, according to data compiled by Bloomberg. A New York sales-tax bond with the same maturity traded at 11 basis points over AAA rated debt on June 14.

Banks, looking to get a strong start in the second-half of the year in rankings for competitive underwriting, bid aggressively, said Bryan Laing, vice president of credit research at Fiera Capital Inc.

Banks "are looking forward to those league tables, particularly in a year when the supply outlook is less certain than other years," Laing said. "They're not going to have a problem clearing the deal with investors either, because the demand is there."

Proceeds of the sales tax bond sale, rated Aa1 by Moody's Investors Service, the second-highest investment grade, will finance capital projects for highways, bridges, rail and educational facilities.

Bond Backing

The bonds are backed by a dedication of 1 percent of New York's 4 percent state sales tax, which is expected to yield $14.1 billion in fiscal 2019, according to Moody's. The state budget office projects the tax dedication will provide coverage of 3.6 times debt service in fiscal 2018 based on $3.42 billion of dedicated receipts and maximum annual debt service, including parity debt, of about $942 million, Moody's said.

Sales tax receipts have grown at a 4.0 percent compound annual growth rate since 2010 and the state budget office projects growth of 3.9 percent from fiscal 2019 to 2022. The projections will "likely prove optimistic," because the estimate doesn't provide for an economic downturn during the period, according to Moody's.

Last month's U.S. Supreme Court decision which expanded the ability of state and local governments to collect billions of dollars in sales taxes from online retailers, will boost revenue, Laing said.

Bloomberg Markets

By Martin Z Braun

July 11, 2018, 10:40 AM PDT

Hands-Off Approach May Be Changing in Hub of Muni Bankruptcies.

- **California treasurer hopeful wants to help cities on the brink**
- **State has laissez-faire attitude to municipal bankruptcies**

California is notorious for its hands-off approach to distressed cities. Fiona Ma wants to fundamentally change that if she becomes state treasurer.

Ma, a Democrat who's running against Republican Greg Conlon in November, said she would establish a website that would list credit ratings and key financial metrics for local governments. As part of that effort, municipal officials seeing fiscal straits ahead could ask for assistance from the treasurer's office, she said in an interview in San Francisco.

"Local governments have to balance every year. They are very limited in what they can do," said Ma, a certified public accountant who currently serves on the state's board of equalization, which administers some taxes. "We should be looking out for them."

That would mark a shift for California, home to four of the six biggest bankruptcies filed by municipalities in the past quarter century. While the state, through legislation or voter initiatives, has foisted limits on local governments such as on their taxing power and mandated spending, it has no system for monitoring cities that fall in distress.

Providing a central portal for local financial information could spur more investment in lesser-known cities by making it easier for bond buyers to assess conditions and risk, said Ma, who has also served in the state Assembly and on the San Francisco board of supervisors.

Bondholders "don't want to invest in some of the smaller cities because they're not sure whether in the next recession, they're actually going to be paid back," she said.

Ma would also ensure that she knows the impact on municipal governments before making decisions at the California Public Employees' Retirement System and California State Teachers' Retirement System, she said. As treasurer, she would have seats on the boards of both systems, the two largest U.S. pensions.

If Calpers, for instance, is considering a cut to the assumed investment target, which would spur higher contributions from localities to make up the difference, she wants to know if that could leave some scrambling to pay their bills, she said.

"We need to be sensitive that whatever the state does that affects local governments, that you do not surprise them," Ma said. "Because that's where they're going to get in trouble."

Ma is vying to replace Democrat John Chiang, who is leaving his post after an unsuccessful primary run for governor. She's favored to win, as Democrats outnumber Republicans in California by almost 2 to 1.

Bloomberg Markets

By Romy Varghese

July 12, 2018, 7:27 AM PDT

New Hampshire BFA Issues RFP for National Bond Administration Services.

Read the RFP.

New Hampshire Business Finance Authority | Jul. 9

Alaska's Tax-Credit Bond Plan Raises 'Subject-to-Appropriation' Questions.

As Alaska seeks to improve its financial standing it is turning to bonds to pay off $1 billion of tax credits it owes to oil and gas producers.

But the state – which faced controversy for using the subject-to-appropriation clause to walk away from a lease obligation for a state office building – faces a constitutional challenge before it can go to the market.

State officials are seeking dismissal of a lawsuit claiming that the plan violates the Alaska constitution's limits on new debt.

Gov. Bill Walker, who signed a bill approving the program last month, says it will reduce the state's deficit while encouraging oil producers to invest in the state.

"The policy change will save state government money in the long run, immediately provides small, independent oil and gas companies cash to invest, and keeps good on the state's past promise to incentivize industry investment in Alaska and exploration for new oil," according to a press release from his office.

Under the plan, producers who hold state tax credits for oil and gas exploration will get paid early in exchange for a 10% discount that the Walker administration says will pay for the bonding costs.

The bonds will be sold through a newly created Alaska Tax Credit Certificate Bond Corp. The bonds are subject to appropriation – relying on the legislature budgeting money every year to pay the debt service.

This isn't Alaska's first use of subject-to-appropriation bonds.

The state currently has $237 million in outstanding subject-to-appropriation bonds that are paying off a state prison in Goose Creek and a residential housing facility for Alaskan native tribes, according to an April memo to the legislature.

Alaska has used such bonds for almost 70 years for projects such as acquiring public buildings for lease to the state government, Deven Mitchell, the state's debt manager, stated in the memo.

He said such bonds are typically rated a notch below the state's bond rating but said any concern about their marketability is "misplaced."

"In short, Subject to Appropriation bonds carry specific ratings in the Municipal bond market, are a well understood and commonly used financing tool, and will be highly rated based on the state of Alaska's credit," Mitchell said.

The state would face the same negative impacts for failing to appropriate funds to pay off the bonds as it would for not paying off general budget obligations for public safety, pensions and other programs, he said.

Two years ago, the Alaska legislature cited the subject-to-appropriation clause when it broke its lease for a Legislative Information Office in downtown Anchorage.

The six-story building was renovated to meet the specifications of the state agency, which occupied it in 2014. Amid finger-pointing over the cost of the 10-year, $33 million lease, state officials walked away from the lease and the building two years later, leaving the developers empty-handed after remodeling the building.

The building developers sued the state but a court found that the legislature acted within its rights not to appropriate funds for the rent.

The state's decision to break its contract worried the Alaska Bankers Association at the time; it wrote to the legislature that doing so could impact the state's creditworthiness and cost of borrowing.

"Using the subject-to-appropriation clause, given the circumstances the state was in at the time, for us it had negative implications," said Mike Martin, secretary-treasurer of the association and chief operating officer of Northrim Bank.

The association's view was that "once the state makes a promise it has an obligation it should honor," Martin said.

Martin sees the issue of the legislative building, which he described as a "political football," as a unique situation and doesn't believe the state would do the same with bonds issued for the oil and gas tax credit program.

The group supports the oil and gas tax credit program as one of two major steps taken by the legislature this year to create a sustainable budget going forward. The other was a bill in which the state will annually draw 5.25% from the Permanent Fund – a pool of oil and gas tax revenues invested over the years – to reduce its deficit.

"I think it just creates a whole lot more stable environment," Martin said.

Opponents of the plan question whether it will result in savings and say it violates the Alaska constitution, which only allows for state debt to be incurred for capital improvement project or housing loans for veterans programs following voter approval.

Eric Forrer, a former University of Alaska regent and a retired contractor, filed the lawsuit on those grounds.

"We're now converting a very soft obligation into a hard-edged debt," said his attorney, Joe Geldhof.

An April legal opinion by the legislature's attorneys found a "substantial risk" that the plan to bond could be unconstitutional.

"They're converting it from something that's purely discretionary to something if we don't pay it impacts our credit rating," said Alaska state Sen. Bill Wielechowski, D-Anchorage, who asked for the legal review. "I would argue it puts the state into a much more detrimental position and could limit our ability to bond for future things."

Attorney General Jahna Lindemuth wrote a May 2 legal opinion stating that "financing tools like those proposed in this bill are not prohibited by the Alaska Constitution."

The proposed bonds would not be considered debt because they would be "subject entirely to the legislature's discretion to appropriate funds for that purpose, and the bonds give bondholders no recourse against the state," the opinion states.

Wielechowski said there's no question – even among those who oppose the plan like himself – that if the state issues bonds the legislature will appropriate money to pay them off.

"We have to pay our debt," he said.

According to the state Department of Revenue, a bond issue of between $683 million to $738 million would be sold in August followed by an deal from $130 million to $180 million sometime between August 2019 and August 2021.

Under that plan, the state will only pay interest on the debt for the first two years followed by increased debt service that would eventually decline to flat payments in the final five years of the 10-year schedule.

That plan reduces the cost of oil and gas tax credits from 8.1% of the general fund budget to 1.1% and results in more predictable and level annual payments, the agency stated.

Timothy Little, an analyst with S&P Global Ratings, said the rating agency doesn't see the oil and tax credit bond as a significant credit factor although "it does provide certainty going forward of how those liabilities would be funded."

In June, the rating agency moved Alaska's outlook to stable from negative and raised its ratings for general obligation bonds from the Alaska Energy Authority from A to A-plus following the passage of the state budget. S&P rates Alaska GOs AA.

Most appropriation bonds are ranked a notch below the agency's general obligation ratings, Little said.

"In general, when there is a requirement for the legislative body to make an appropriation we do factor into our assessment the willingness" to fund it, Little said.

But that willingness is "not always easy to quantify up front," he said.

The Bond Buyer

By Imran Ghori

July 05 2018, 3:16pm EDT

Puerto Rico Bankrupt Utility Is Leaderless After Pay Scandal.

- **Upheaval comes amid furor over new CEO's $750,000 base salary**
- **Public employees, residents face government austerity policies**

Most board members of Puerto Rico's power utility resigned Thursday after a chorus of outrage over pay for its new chief executive officer, who then pulled out of the job. The tumult leaves the troubled agency leaderless at a critical time in its bankruptcy and sale of its assets.

In a letter to Governor Ricardo Rossello, five members of the panel said they were dismayed by "petty political interests." Earlier, Rossello joined politicians and residents in decrying the $750,000 salary pledged to incoming chief executive Rafael Diaz-Granados, which they said was exorbitant in light of the island's financial crisis and the possibility that public employees may soon face reduced benefits.

“We no longer believe that we have the support to perform the politically unpopular tasks necessary to drive the change from within PREPA,” the board members wrote in the resignation letter, which was confirmed by a person with direct knowledge of the matter. “When the petty political interests of politicians are put ahead of the needs of the people, the process of transforming the Puerto Rican electricity sector is put at risk.”

Diaz-Granados, himself a board member, quit that position and won’t take the chief executive job, according to the person, who asked not to be named because it wasn’t yet official.

Rossello will name board replacements before he leaves for a personal trip to attend the FIFA World Cup final in Moscow between France and Croatia, according to Public Affairs Secretary Ramon Rosario.

Rich and Poor

Executive pay has turned into a sensitive topic for the U.S. commonwealth. As the entire island wades through bankruptcy proceedings, many regular Puerto Ricans, including low-level public employees, face the prospect of seeing pension payouts, Christmas bonuses and even sick and vacation days slashed. Also under scrutiny is the paycheck for the executive director of the island’s fiscal control board, which the U.S. Congress installed to right the island’s fiscal accounts.

Diaz-Granados was named CEO on Wednesday, just hours after the surprise resignation of Walter Higgins. Higgins quit after the legislature had sought to prevent him from receiving a bonus on top of his $450,000 salary. Diaz-Granados’s higher base salary, which the utility said was in line with industry standards, appeared intended to circumvent the legislature’s anti-bonus measure.

Daunting Task

The Prepa crisis comes at a critical time. It’s navigating bankruptcy court and working with investment bankers to sell generation assets, potentially putting the transmission and distribution business under a private concessionaire. The new leadership also faces the daunting task of addressing decades of ingrained corruption, inefficiency and poorly maintained infrastructure.

In a press release Wednesday, the utility said Diaz-Granados’s pay was in line with industry standards, citing an American Public Power Association formula based on utilities’ revenue.

Diaz-Granados defended his salary in local radio interviews Thursday. He said he was “sacrificing” to take the job, and said his previous position at General Electric Co. paid more than $2 million a year.

Indeed, Constance Lau, the CEO of Hawaiian Electric Industries, a utility that had comparable annual revenue, made $893,533 in base salary in 2017. CEO Patricia Kampling of Alliant Energy Corp., which also posted similar sales, earned $980,000. But those utilities are investor-owned, and the similarities with Prepa’s financial situation essentially end there.

By comparison, Gil Quiniones, CEO of the state-owned New York Power Authority, makes $235,000 in base annualized salary. And before Higgins and Diaz-Granados, top Prepa executive Ricardo Ramos had a salary of just $142,000.

Livid Residents

Diaz-Granados, a multilingual Harvard University graduate who is originally from Colombia, spent 15 years at GE, including as president and chief executive officer of GE Spain and Portugal and GE

Mexico. Higgins arrived on the island from Nevada in March without much Spanish, but brought 40 years of management experience.

Coraly Ortiz, a 43-year-old bank employee in San Juan, said she was furious about Diaz-Granados's salary.

"It's completely disproportionate and ridiculous, above all with the situation in Puerto Rico," she said. "They're creating an elite of overpaid government officials taking advantage of the crisis."

Bloomberg Markets

By Michelle Kaske, Yalixa Rivera, and Jonathan Levin

July 12, 2018, 9:24 AM PDT Updated on July 12, 2018, 1:46 PM PDT

— With assistance by Mark Chediak, and Lynn Doan

U.S. Judge Nixes Move to Toss Puerto Rico Bankruptcy Case.

(Reuters) – A federal judge on Friday rejected an attempt by a major Puerto Rico bondholder to throw out the U.S. territory's historic municipal bankruptcy case.

U.S. District Judge Laura Taylor Swain ruled that the creation by the U.S. Congress of a financial oversight board for Puerto Rico under a law known as PROMESA and the appointment of the board's members did not violate the U.S. Constitution.

"The oversight board's statutory objectives and scope of authority thus mark its character as territorial rather than federal," Swain's ruling said.

Aurelius Capital Management, an investment firm with a specialty in distressed debt, filed a motion last year arguing that the board's creation violated the U.S. Constitution's Appointments Clause. The hedge fund sought to dismiss the board's May 2017 federal court case to restructure the territory's roughly $120 billion in debt and pension liabilities.

An Aurelius spokesman said the hedge fund declined to comment on the ruling.

Under the 2016 federal PROMESA law, Congress appointed six members to a board tasked with managing the territory's finances, with then-President Barack Obama adding a seventh. PROMESA gave the board authority to push fiscally struggling Puerto Rico into a court-supervised restructuring akin to U.S. bankruptcy.

"As stated in Judge Swain's opinion, PROMESA empowers the Oversight Board to 'approve the fiscal plans and budgets of the Commonwealth and its instrumentalities' and 'override Commonwealth executive and legislative actions that are inconsistent with approved fiscal plans and budgets,'" the oversight board said in a statement on Friday.

Swain, who is overseeing Puerto Rico's case, previously dismissed a lawsuit by Aurelius and other investors over the territory's default on its general obligation bonds.

(Reporting by Karen Pierog in Chicago; Editing by Daniel Bases and Leslie Adler)

July 13, 2018

[Puerto Rico Utility Directors Resign, Alleging Political Interference.]

Most of the Puerto Rican power monopoly's board resigns after the governor demands a CEO salary cut

The independent directors of Puerto Rico's bankrupt public power monopoly resigned Thursday, alleging political interference after top lawmakers and the U.S. territory's governor demanded cuts to a chief executive compensation package.

Five board members at the public power monopoly known as Prepa said in a resignation letter that "political forces in Puerto Rico" had been meddling in their decisions and "want to continue to control Prepa." The incoming CEO was among the board resignations, leaving Prepa leaderless a day after the current CEO, Walter Higgins, said he was departing.

The seven-member board came under fire after offering Mr. Higgins's successor a $750,000 salary, which top Puerto Rican politicians criticized as excessive for a bankrupt utility. Gov. Ricardo Rosselló said the compensation was "not proportional" to Prepa's financial condition and called on the utility's board members to cut the CEO salary or resign.

"When the petty political interests of politicians are put ahead of the needs of the people, the process of transforming the Puerto Rican electricity sector is put at risk," the resignation letter said.

The departures threw Prepa's leadership into disarray as the utility vies with bondholders in court to drive down a $9 billion debt load and solicits new investments for a dilapidated power system.

The resignations also marked an unusual rebuke to political meddling for a public authority often accused of being politicized. Prepa has long been plagued by frequent turnover at the top, with politically connected officials cycling in and out depending on the party in power. Board Chairman Ernesto Sgroi, one of the directors who resigned Thursday, was Mr. Rosselló's 2016 campaign treasurer.

"I strongly reject the allegations of political interference by outgoing members of the governing board," the governor said in a statement.

Wall Street creditors supported the installation of independent board members under a 2016 governance overhaul. The turmoil in Prepa's leadership further clouds the strategy for repairing the damage from last year's hurricane season and improving service for consumers.

"There is a total meltdown of the Puerto Rico Electric Power Authority right now," said Puerto Rico Senate Minority Leader Eduardo Bhatia. He said the resignations could prompt a takeover by the U.S. territory's federal financial supervisors or by Congress.

A spokesman for the House Natural Resources Committee, which has jurisdiction over U.S. territories, said the political influence on Prepa proved it wasn't truly independent.

Since last year's devastating hurricane season, U.S. lawmakers and the Energy Department have discussed a temporary federal takeover of Prepa, but the idea didn't gain broad traction, according to people familiar with the matter. Puerto Rico's federal oversight board tried to take over Prepa last year but was blocked in the courts.

Prepa tapped board member Rafael Díaz-Granados as its new CEO on Wednesday after Mr. Higgins abruptly resigned from the position, saying he believed he wouldn't be paid what he was owed by Prepa. Mr. Higgins, a high-profile hire with decades of industry experience, was on the job less than four months.

Lawmakers maneuvered in recent weeks to cut nearly half a million dollars in bonuses from his compensation and likewise criticized the pay package offered to Mr. Díaz-Granados, a former General Electric Co. executive who led that company's operations in Spain, Portugal and Mexico. Prepa said the compensation was comparable to CEO pay at other utilities of Prepa's size and complexity.

Prepa, one of the largest U.S. utilities, entered a court-supervised bankruptcy last year after a long financial decline. Mr. Rosselló and the oversight board want an end to the utility's monopoly structure with its various assets privatized.

Union employees worry the strategy will cost them their jobs, while bondholders argue they must be compensated as assets are spun off. The oversight board wants electrical rates slashed to effectively boost family incomes and spur economic growth.

The power grid was destroyed when Hurricane Irma and Hurricane Maria hit Puerto Rico back-t--back last September, and hundreds of customers in central mountainous regions still haven't had service restored with another hurricane season under way. With Prepa's system severely damaged, bonds backed by electricity revenue have tumbled in value. A frequently traded bond due in 2040 sold for less than 45 cents on the dollar Thursday, according to Electronic Municipal Market Access.

Prepa has spent hundreds of millions of dollars repairing transmission and distribution lines, unnerving creditors who worried the money wasn't being well spent. Prepa also has been dogged by allegations of corruption and mismanagement that remain under investigation in Congress.

Costly and unreliable power service is a drain on family incomes and the quality of life in Puerto Rico, which owes roughly $70 billion in debt and another $50 billion in unfunded pension liabilities.

Prepa's problems have been decades in the making. It earned praise for powering Puerto Rico's industrialization efforts in the 1940s and 1950s but became more inefficient over time as generating plants, which largely rely on fossil fuels, required major upgrades that were never made or left uncompleted.

When the island sank into recession, Prepa's finances worsened as business and residential demand for power declined. The exodus of Puerto Ricans to the continental U.S. in the wake of Hurricane Maria is shrinking the island's population, depleting Prepa's customer base and leaving creditors fewer avenues to get repaid.

The Wall Street Journal

By Andrew Scurria

July 12, 2018

Write to Andrew Scurria at Andrew.Scurria@wsj.com

[S&P Withdraws Various Puerto Rico Gov't Agency Ratings.]

SAN JUAN – Credit rating company S&P Global Ratings has withdrawn its "long-term and unenhanced ratings" on the Puerto Rico Municipal Finance Agency's $413,115,000 2005 series A bonds, $59,075,000 2005 series B refunding bonds, and $258,645,000 2005 series C refunding bonds.

"The ratings were withdrawn due to lack of timely information sufficient to maintain the ratings," S&P said in a report Thursday to the markets.

It also withdrew its ratings for Puerto Rico Municipal Finance Agency's $510,615,000 2002 series A bonds; Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority's $13,215,000 1998 series A industrial revenue bonds; and Puerto Rico Public Building Authority's $128,895,000 1993 series L, revenue refunding bonds.

A rating suspension does not imply that the entity is not servicing its debt obligations or that its financial position has deteriorated, but rather that it failed to provide certain information such as its finances, liquidity or operations.

Caribbean Business

By Eva Lloréns Vélez on July 6, 2018

[New Jersey Is Back From the 'Abyss,' Murphy Says. Credit Raters Need More.]

- **Record $3.2 billion pension payment first step, governor says**
- **Budget in place, he looks to oversee progressive initiatives**

Governor Phil Murphy's record $3.2 billion pension payment was an easy sell to New Jersey lawmakers who had fought him on other budget initiatives. Still, he said, it was bittersweet to sign a spending plan that won't impress Wall Street enough for an upgrade.

Credit-rating analysts want to see other elements of what the state was lacking under his predecessor, Republican Chris Christie, including recurring revenue, fulfilled obligations and a sizable surplus. Until then, Murphy said Monday in an interview, New Jersey's once top grade will remain second-worst among U.S. states, behind Illinois.

Christie, who insisted that smaller government and lower taxes would boost New Jersey's economy, oversaw a record 11 downgrades by the three major rating firms during his two terms. In many ways, Murphy is his antithesis — a union-backed progressive who believes the solution to New Jersey's recovery is raising taxes to support increased spending on schools, education and infrastructure.

The 2019 budget brings New Jersey "one step back from the abyss," said Murphy, a retired Goldman Sachs Group Inc. senior director and former ambassador to Germany, who took office in January.

Soccer Fan

"This is a major step, but it's one step," the Democrat said as he sipped iced tea at a Red Bank restaurant near his riverfront mansion, in his first media interview since signing a $37.4 billion spending plan for the fiscal year that began July 1.

Dressed in jeans, his trademark Allbirds woolen sneakers and a taco-patterned shirt in recognition of Mexico's World Cup match with Brazil, the 60-year-old governor gave a glimpse of weeklong negotiations with Democratic legislative leaders who had objected to his plan to raise more than $1.5 billion in revenue with a millionaire's tax and a higher sales tax. Without an agreement by July 1, he risked a government shutdown.

On Sunday night, Murphy signed a budget that contained most of what he wanted, though in slightly different form, he said. After negotiations, he agreed on a higher income tax for those who make at least $5 million, no sales-tax increase and a surcharge on the corporate business tax that he had initially resisted.

Budget Deal

Murphy went along despite initial reservations that companies would head for lower-cost states.

"Having a sensible solution on some of these tax policies was, I think, all that they were asking for," Murphy said of unnamed corporate chief executives with whom he said he had spoken during budget talks. A state will lose businesses no matter what, he said, but the goal was "to keep more than your fair share."

Republicans fear the state will lose more of its residents and businesses. Democrats are "taxing with impunity," Doug Steinhardt, chairman of the New Jersey Republican Party, wrote Tuesday in a northjersey.com column.

"Democratic leaders brand their budget compromise a stronger and fairer New Jersey," Steinhardt wrote in his column. "It isn't. We are weaker and poorer because of it."

On Monday, Murphy said he was a few moments late to the interview because he was having a phone conversation with a chief executive of a publicly traded company, which he declined to identify, that already was planning to add 800 employees to its New Jersey workforce of 100. Companies consider more than taxes when deciding where to locate, he said.

"If all you care about, literally all you care about, is the tax rate, and you don't care about infrastructure, location, public education, higher ed, what are you doing with incubators, what are you doing to develop talent, keep talent — New Jersey will have a hard time in that fight, right?" he said. "It's like a single-issue voter."

Demand for New Jersey bonds has increased this year. Debt sold in the state has gained 0.17 percent, beating the overall municipal-bond market's 0.25 percent loss, according to Bloomberg Barclays Municipal Bond Index.

In the weeks heading to the spending deadline, Murphy had public appearances and news conferences alongside members of groups backing a $15 minimum wage and environmental causes as well as unions representing public employees. Christie had alienated the government workforce by failing to make promised pension payments after they agreed to pay more toward retirement and health benefits — and then calling for more concessions.

Murphy said he intended to keep employees in his corner, even as he examines how to reduce their costs to taxpayers.

"I'm committed to earning that trust back," he said. "It isn't just to have a nice relationship. It's the right thing to do, to again be a state that people say, 'You know, I trust this place.' Rating agencies, God willing, will trust us again."

Bloomberg Politics

By Elise Young

July 3, 2018

— With assistance by Michelle Kaske

Fitch: California Better Equipped for Next Recession.

Fitch Ratings-New York-02 July 2018: There is a strong likelihood California's next governor will encounter recession, though a new Fitch Ratings report says that the state is fundamentally better positioned to withstand the next inevitable economic downturn.

With Governor Jerry Brown's final budget now official and his second term nearing an end, California continues to benefit from strong economic growth in the midst of the second-longest national economic expansion. Whether the state's choice for next governor is Democrat Gavin Newsom or Republican John Cox, the state is likely to experience a "what goes up, must come down" scenario with a stiff economic test likely for California's economy.

'Governor Brown's popularity among voters helped him to successfully raise taxes, establish a rainy day reserve and budget conservatively, advantages the next Governor may not have,' said Senior Director Karen Krop. 'However, the next governor will benefit from structural changes made over the last decade that will heavily affect how the state's budget performs through the next inevitable recession.'

Among the post-recession changes made that underpin Fitch's 'AA-' rating for the state are lower voting requirements to approve state budgets, improved access to internal liquidity, transference of some state responsibilities to local governments, and a new funding mechanism for the rainy day fund. While the structural enhancements are in place, the next governor will face the same pressure to address issues such as healthcare, homelessness, infrastructure and access to higher education, among other quality of life challenges that will be magnified in a broader economic downturn. This makes the response when the next recession comes very integral to California's future ratings and Outlook.

'California after Governor Jerry Brown' is available at 'www.fitchratings.com'

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Additional information is available on www.fitchratings.com

Fitch: Georgia Water Credits Risks Rise in Dispute with Florida.

Fitch Ratings-New York-06 July 2018: In a recent US Supreme Court (SCOTUS) decision, the justices sided with Florida in an ongoing dispute over water allocations between Florida and Georgia from the Chattahoochee and Flint River basin. The eventual outcome of this lawsuit could have credit implications for water utilities as it would raise the need for borrowing to create additional supply, Fitch Ratings says.

The special master appointed to hear the dispute between Florida and Georgia decided there was insufficient evidence to prove that limiting Georgia's water use would benefit Florida. However, SCOTUS reviewed that decision and ruled the special master should reconsider Florida's argument that a cap in Georgia's water consumption could benefit Florida's Apalachicola Bay.

As urban populations grow, competing demands for water and supply stability are making decisions like this one more important for water utilities and increasing the frequency of disputes. A court decision that leads to a reduction in, or ultimately limits, supplies could raise a water utilities' borrowing to finance additional supply development. That would force utilities to strike a careful balance between charging higher water rates and/or assuming lower financial margins. The added costs of water replacement supply development could also divert funding from ongoing renewal and replacement of existing infrastructure, escalating future expenses.

Raising water rates is becoming more difficult as, for decades, water and sewer rate increases exceeded CPI and median household income (MHI). While CPI slightly more than doubled from 1988-2014, typical residential water bills more than tripled and wastewater rates more than quadrupled, according to The American Water Works Association. User charges have steadily climbed toward Fitch's 2% of MHI affordability benchmark, although Fitch-rated credits by and large still have sufficient affordability cushion.

Declining water use in the US overall has meant that cross border disputes will occur within fast growing regions that share water resources. Water use in the United States in 2015 was estimated at 9% less than in 2010, making withdrawals the lowest level since before 1970, according to the U.S. Geologic Survey.

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[Fitch Upgrades DC to 'AA+' and Rates $476MM GOs 'AA+'; Outlook Stable.]

Fitch Ratings-New York-03 July 2018: Fitch Ratings has upgraded the District of Columbia's (the District) Issuer Default Rating and the ratings on approximately $4.8 billion of general obligation (GO) bonds to 'AA+' from 'AA'.

Fitch has also assigned an 'AA+' rating to the following District GO bonds:

–$172.9 million series 2018A general obligation bonds;
–$303.4 million series 2018B general obligation refunding bonds.

The series 2018A and B bonds are scheduled to be sold through negotiated sale on or about July 18.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the District, with its full faith and credit pledged. Also pledged is revenue from a special real property tax, unlimited as to rate or amount and levied in an amount to pay debt service on GO and parity bonds.

ANALYTICAL CONCLUSION

The upgrade of the District's IDR and GO rating to 'AA+' from 'AA' reflects ongoing strong economic and fiscal performance despite federal contraction and the District's repeatedly demonstrated ability to manage its budget to meet identified needs, most recently by increasing revenues to provide enhanced funding for the Washington Metropolitan Area Transit Authority (WMATA, the local public transit operator). Fitch has raised the assessments of the District's revenue framework and long-term liability burden key rating drivers. A more than 40-year history without Congressional intervention in revenue policy substantially mitigates concerns about the theoretical limit to the District's independent revenue control implicit in the federal relationship while the improvement in the long-term liability burden assessment incorporates the strong growth prospects for the District's resource base and recognition of the notable share of its liability burden that is exported to non-residents.

The ratings continue to reflect the District’s exceptionally strong budget control by an independent chief financial officer (CFO), prudent financial management throughout the business cycle and strong growth prospects. The federal government plays a key role in the District’s credit profile given its economic importance to the District and direct fiscal support for retiree liabilities as well as Medicaid. A statutory cap on debt service, strong commitment to long-term capital planning with sizable pay-go commitments and steady economic growth should keep the long-term liability burden relatively stable.

Economic Resource Base
Government employees and spending comprise a significant portion of the District’s economy and provide an important source of stability. The District’s economic base has proven resilient to federal volatility, including sequestration and a federal government shutdown. Continued private sector expansion, supported by robust population growth and favorable demographic trends, offsets the exposure to federal spending.

KEY RATING DRIVERS

Revenue Framework: ‘aa’
The District’s revenue growth will likely be in line with or above the level of U.S. economic growth, driven by overall economic expansion. The District has unique limitations in its independent legal ability to raise revenues given the level of congressional oversight; however, a long record of District revenue actions without Congressional interference substantially reduces the risk presented by this factor.

Expenditure Framework: ‘aa’
The District has solid flexibility to manage primary expenditure demands, with workforce challenges common to many highly unionized localities, offset by low carrying costs. Material federal support assists the District in managing key spending needs, including Medicaid and pensions. Federally mandated reforms also established structural budget management tools that impose spending discipline and limit the natural spending growth rate.

Long-Term Liability Burden: ‘aa’
While pension and OPEB funded positions are very favorable, the District bears a substantial burden commensurate with its responsibility for services that are normally provided by a combination of state and various local levels of government. Statutory policies establish clear caps, but extensive capital needs indicate long-term liability burden metrics will remain around current levels for the foreseeable future. The liabilities as a percentage of market value metric, which incorporates the benefit of the strong tourism presence in the District’s economy and other non-resident economic activity, indicates a lower burden than suggested by the resident personal income-based metric alone.

Operating Performance: ‘aaa’
The District is well positioned to address cyclical downturns with robust reserve balances and related statutory funding requirements, midrange inherent budgetary flexibility and relatively strong expected general fund revenue growth. The CFO’s office provides extensive budget monitoring and control, supporting the District’s operating profile.

RATING SENSITIVITIES

FISCAL MANAGEMENT: The District's 'AA+' IDR is sensitive to shifts in fundamental credit characteristics, including continued strength in the District's concentrated economic profile , proactive and conservative financial management including solid reserve funding and continued careful management of a sizable long-term liability burden with debt issuance matched to economic and fiscal capacity.

FEDERAL OVERSIGHT AND SUPPORT: The federal government's role is a critical factor in the District's rating. Direct fiscal contributions support the District's strong expenditure framework and temper the long-term liability burden. Material changes in the federal government's relationship with the District could trigger rating movement. Congressional intervention in the District's revenue policy would lower the revenue framework assessment.

CREDIT PROFILE

The District's income levels are very high, but an income equity gap remains. The 2017 per-capita personal income was by far the strongest in the nation (relative to U.S. states) at approximately $77 thousand, or more than 150% of the national level. However, the poverty rate is also high at 19% versus a national rate of 13%. Population growth has been triple the national rate since 2010, reaching nearly 700,000 in 2017. The District is responsible for funding its public schools, including charter schools, and overall enrollment has grown steadily at roughly 3% annually between 2014 and 2017, with additional growth anticipated in coming years, commensurate with the overall population trends.

Revenue Framework
The District has diverse tax revenues with real and personal property taxes, personal and corporate income taxes and a sales and use tax. Combined, these sources account for approximately three-fourths of its general fund revenues.

Stability in property taxes offsets volatility in the income and sales taxes, while the growth potential of the latter two taxes supports Fitch's assessment of strong revenue growth going forward. Strong revenue growth over the past decade, well above the rate of national GDP, indicates fundamental resilience despite federal government contraction. Fitch's assessment recognizes that the actual historical growth rate that is somewhat overstated given revenue policy actions the District implemented during this period.

The District's independent legal revenue-raising capability is theoretically limited by federal oversight, but not fundamentally so given a long historical record without any Congressional interventions on District revenue measures. The federal Home Rule Act established the District as essentially a federal agency for budgeting purposes, requiring explicit congressional approval as part of federal appropriations bills before local budget bills become effective. Local budget bills are the only way for the District to authorize spending of revenues, including tax or fee increases implemented under separate local legislation.

Under a local Budget Autonomy Act enacted by the District council in 2012 and a local court decision upholding it, the District believes its local funds budget is now only subject to a 30-legislative days congressional review period. Some members of Congress have challenged this assertion and, in Fitch's view, the final outcome remains somewhat unclear.

Since a 2016 decision in the District's Superior Court, the District has followed the budgeting process outlined in the Budget Autonomy Act. After council and mayoral approval, the District submits the local funds budget bills to Congress and considers them fully enacted after a 30-legislative days congressional review period. However, Congress has continued to follow Home Rule

Act provisions and included the District's local funds budget in its federal appropriation bills.

Historically, the federal appropriations bills have included all provisions, including revenue changes, in the local funds budget approved at the District's level. They have also usually included additional policy riders inserted by Congress that modestly restrict the District's expenditure authority. For fiscal 2018, Congress inserted provisions prohibiting any expenditure of local funds to legalize marijuana and tightly limiting expenditures for abortions. As it traditionally has, the District intends to comply with these provisions included in the federal appropriations bills.

The Home Rule Act also subjects all non-budget enacted local legislation, including revenue raising measures, to a 30- (for civil matters) or 60-(for criminal matters) legislative days congressional review period. Congress can void the legislation during the review period with a joint resolution of both houses, signed by the president. This represents a significant political hurdle, as locally approved legislation has been voided only three times and not since 1990. None of the voided legislation related to fiscal policy or revenue changes.

Beyond the federal provisions noted above, the District has no other legal limitations on its ability to raise revenues through tax or fee increases, or base broadenings. Since the 1973 enactment of the Home Rule Act, Congress has never voided or otherwise overturned revenue-raising measures approved by the District's council and mayor.

Expenditure Framework
The District's responsibilities are very broad, as it provides city, county and education services to its population. In addition, the District also functions as a state government sharing the most significant expenditure challenge facing most state governments, Medicaid. An enhanced Federal Medical Assistance Percentage (FMAP) match provides the District with a level of federal support exceeding that provided to most states, offsetting some of the burden.

Overall spending should continue to grow in line with revenues. The District faces a wide range of expenditure pressures but benefits from a resilient revenue stream primed for continued growth.

Federal action to revise Medicaid's programmatic and financial structure, including a basic restructuring of federal Medicaid funding to a capped amount, remains a possibility. Whether a change in Medicaid funding has consequences for Fitch's assessment of the District's credit quality would depend on the District's fiscal response to those changes. Responses that create long-term structural deficits or increased liability burdens could negatively affect both the expenditure framework assessment and the IDR.

Carrying costs (debt service, pension actuarially determined contribution [ADC] and OPEB actual contribution) are low at about 8% of spending and should be fairly stable (if actuarial assumptions for the pensions are achieved as noted below) as the District consistently pays full actuarial amounts for both pensions and OPEB. Debt amortization is relatively slow, reflecting statutory caps that limit annual debt service. Federal support also plays a key role in minimizing carrying costs. District employees except police, firefighters, and teachers participate in either the federal Civil Service Retirement System (for those hired before Oct. 1, 1987), with the District making percentage of payroll contributions as a participating employer or a District-managed defined contribution system.

Police, firefighters and teachers participate in single employer defined benefit plans managed by the District of Columbia Retirement Board (DCRB). Under the federal National Capital Revitalization and Self-Government Act of 1997, the federal government took on the liabilities and annual contribution requirements for police, firefighters and teachers accrued through June 30, 1997. District funding of actuarial liabilities accrued since then has been in line with actuarially determined amounts. Fitch anticipates annual pension spending will remain relatively stable given the DCRB's adoption of more conservative actuarial assumptions including a closed 20-year amortization, level dollar (as opposed to the more common level percent of payroll) amortization and 6.5% investment return assumption.

The District's workforce is highly unionized with approximately 75% of the workforce subject to collective bargaining, and Fitch views the workforce environment as a neutral to weaker factor in the District's overall expenditure flexibility assessment. Employees are not permitted to strike but all collective bargaining units are eligible for binding arbitration to resolve contract negotiations.

The District reports it has settled contracts with essentially all bargaining units, except for the police officers' union. While Fitch has not fully evaluated terms of other labor settlements, the District's CFO reviewed them for fiscal sustainability the costs and are incorporated into the fiscal 2019 budget and multi-year financial plan The budget and fiscal plan also includes estimates for settlement of the police contract, on terms consistent with what the contract for fire and emergency medical services personnel. Given the anticipated strong growth in revenues, Fitch does not believe the new contracts will materially affect its expenditure framework assessment.

Recent action by the District, Maryland, Virginia (collectively the contributing jurisdictions), and the Washington Metropolitan Area Transit Authority (WMATA, the local public transit operator) addresses the authority's key capital needs without materially affecting the District's expenditure and long-term liability demands. In 2018 legislative sessions, the contributing jurisdictions all implemented measures to provide a combined approximately $500 million annually in new and permanent capital funding. This level of dedicated funding meets WMATA's recent request from the jurisdictions to allow it to fully fund an ongoing capital plan to improve safety and reliability. As the District's only public transit operator, WMATA's sustainability and success is an important factor in the District's economic growth prospects.

For the District, the increased contributions will be supported with a mix of recurring revenue increases and dedication of pay-go capital funding. The recurring revenue will derive first from a dedicated share of sales tax revenues. That dedication will be ultimately supported by several tax policy changes including rate increases in the sales tax to 6% from 5.75% (matching Maryland and Northern Virginia) and in the ride-sharing tax to 6% from 1%, as well as 3-cent of a 4-cent increase in the commercial property tax rate to $1.89 per $100 from $1.85.

Importantly, this newly dedicated funding is on top of other capital and operating support the contributing jurisdictions have historically provided to WMATA, and Fitch anticipates that the other support will continue. The District's operating contributions have consumed between 4% and 5% of its general fund operating expenditures in recent years, while the District's annual share of WMATA's capital budget has been approximately $130 million, or 10% of the District's capital spending.

Long-Term Liability Burden
Pensions and OPEB liabilities are very low with both obligations essentially fully funded, setting the District apart from the vast majority of U.S. governments. Federal support described earlier plays a key role in this extremely strong funded position. However, the debt burden reflects the District's responsibilities for functions that would normally be shared between state and local governments. Pro-forma combined debt and pension liabilities are approximately $11.5 billion, or 22% of the District's 2017 personal income (debt represents 21%).

Given the District's position as one of the nation's premier tourist destinations and other significant economic activity generated by non-residents including commuters, Fitch also considers a total liabilities-to-market value metric. Relative to fiscal 2017 taxable assessed value of just over $200 billion, the ratio is approximately 6%. As the nation's capital and home to many not-for-profit groups, one-third of the District's tax base is tax-exempt, somewhat overstating this ratio.

Fitch's analysis includes outstanding debt as of March 31, 2018 and an estimated $550 million in new money issued since then or anticipated later this year. This includes recent GO bond anticipation notes, the new money portion of the bonds rated here and an additional new money issuance anticipated for later this year.

Fitch expects the District's long-term liability burden to remain relatively stable driven by a steady flow of capital needs, offset by likely steady and strong economic growth. The District's annual long-range capital financial plan report provides an extensive assessment of foreseeable capital needs over a multi-decade timeframe and its ability to fund them. This type of explicit very long-term capital planning is uncommon for state and local governments. Fitch anticipates the District will remain committed to addressing what it considers a long-term capital needs gap identified in its report by regularly issuing new debt but also by increasing other financing sources including pay-go.

Operating Performance
The District's resilient revenue base, solid spending flexibility and sizable reserves leave it very well positioned to manage through a moderate economic downturn. Available general fund balance was approximately 24% of spending at almost $2 billion at the end of fiscal year 2017 (ended Sept. 30), aided by a roughly $300 million operating surplus. The revised budget for fiscal 2018 forecasts a roughly $100 million surplus, which should allow the District to further boost its sizable reserves.

Available general fund balance includes all unrestricted fund balance (including the cash flow reserve and fiscal stabilization reserve), and two components of the restricted general fund balance (the contingency cash reserve fund and emergency reserve fund). The latter two funds were established under federal statute to provide fiscal flexibility and both are available for intra-year cash flow needs, supporting Fitch's view that they are part of the District's available financial cushion.

Fitch views the extensive powers and responsibilities of the independent CFO and other federally established mechanisms as key strengths of the District's operating environment. Fiscal discipline instilled following the District's financial crisis in the 1990s is institutionalized, largely in the form of the CFO's office. The CFO establishes the official binding revenue forecast used for budgeting and regularly updates it; monitors annual revenue and expenditure trends to ensure budget compliance and to flag any unanticipated shortfalls; scores all local legislation with potential fiscal consequences and can essentially block legislation that leads to a projected budget deficit; and develops annual multi-year revenue estimates.

Under the Federal Home Rule Act, the District's annual budget also includes a detailed multi-year outlook for operating and capital revenues and spending. Revenues in particular (presented by the CFO) tend to be based on conservative assumptions. While the federal financial control board is dormant, federal law establishes clear guidelines for its automatic reinstatement (namely, signs of significant District fiscal distress).

During the current economic expansion, the District made rapid progress in restoring fiscal flexibility with measures like steady rebuilding of its general fund balance (including establishing the cash flow reserve and fiscal stabilization reserve accounts in fiscal 2011) and rolling back temporary personal income tax increases implemented to address effects of the great recession.

CURRENT DEVELOPMENTS

In the June 2018 quarterly revenue estimate, the CFO projected modest growth in local sources, general fund revenue growth of 2.4% in fiscal 2018, and then approximately 3% growth in the outyears through 2022. The fiscal 2018 projection is particularly affected by short-term stimulus effects of the recent federal tax changes enacted in December 2017. The CFO's overall revenue outlook derives from an expectation of continued economic growth, but at a slightly reduced pace. Fitch considers the revenue estimates prudent and achievable, assuming continued national economic stability.

The District's council-approved fiscal 2019 budget includes modest increases in local funds spending of less than 2%, supported by revenue growth and use of between $100 million to $200 million of the prior year's ending balance specifically designated for fiscal 2019 spending. Given the District's historical practice of conservative revenue and expenditure budgeting, Fitch anticipates actual performance could exceed the forecast leading to another operating surplus.

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New York City Turns Inward With 2019 Budget.

New York City's fiscal 2019 budget process concluded on June 14 with the adoption of an $89.15 billion budget. The budget incorporates recently settled state and federal questions while managing for future risks, addressing new spending requests, and increasing reserve set-asides.

Continue Reading

Jun. 25, 2018

Connecticut Receives Federal Approval for All Qualified Opportunity Zone Nominations.

On May 18, Connecticut Governor Dannel Malloy announced that the U.S. Department of the Treasury approved all 72 “Qualified Opportunity Zones” that had been nominated by his administration, 29 of which are located in Hartford, New Haven, Stamford and Bridgeport.

Qualified Opportunity Zones are a creation of the Tax Cuts and Jobs Act (the Act), enacted on December 22, 2017, and serve as part of a new tax incentive mechanism to spur long-term investment in economically distressed communities throughout the United States. Pursuant to the Act, U.S. states and certain territories can nominate communities to be designated as Qualified Opportunity Zones, with such nominations subject to approval by the Secretary of the Treasury.

A taxpayer who invests in a designated Qualified Opportunity Zone through a Qualified Opportunity Fund (an Opportunity Fund) is eligible for preferential tax treatment. For these purposes, an Opportunity Fund is an investment vehicle that (i) is organized as a corporation or partnership formed for the purpose of investing in Qualified Opportunity Zone property and (ii) holds at least 90 percent of its assets in Qualified Opportunity Zone property. Notably, there are some significant tax benefits that Opportunity Fund investors may be eligible to receive:

1. Tax Deferral: If an investor sells an asset and reinvests the resulting capital gain in a an entity constituting an Opportunity Fund within 180 days from the date of such sale, the investor can defer tax on the reinvested capital gain (the Deferred Gain) until the earlier of (i) the investor’s disposition of its investment in the Opportunity Fund or (ii) December 31, 2026 (the Taxation Date). To defer the associated tax on the Deferred Gain, the investor must so elect when filing its U.S. federal income tax return for the year in which the Deferred Gain arose.
2. Reduction of Tax on Capital Gains: If an investor holds an Opportunity Fund investment for at least five years, such investor’s basis in the Opportunity Fund (initially $0) will be increased by 10 percent of the Deferred Gain. This “step-up” in basis will be increased by an additional 5 percent of the Deferred Gain if the Opportunity Fund investment is held for at least seven years. In any event, on the Taxation Date, the taxpayer will be subject to capital gains tax on the lesser of (i) the Deferred Gain over the taxpayer’s adjusted basis in the Opportunity Fund or (ii) the fair market value of the taxpayer’s investment in the Opportunity Fund over the taxpayer’s adjusted basis in the Opportunity Fund. In a best-case scenario (i.e., if the taxpayer holds its Opportunity Fund investment for at least seven years and the taxpayer’s investment in the Opportunity Fund has appreciated), the taxpayer will generally be subject to capital gains tax on only 85 percent of its initial Deferred Gain and will have deferred the associated tax on 85 percent of the Deferred Gain for at least seven years.
3. Elimination of Tax on Realized Appreciation: If an investor holds an Opportunity Fund investment for ten or more years, the investor’s basis in the Opportunity Fund will be stepped up to the fair market value of its investment on the date the investment is sold or exchanged. As a result, following 85 percent of the Deferred Gain being subject to tax at capital gains rates on the Taxation Date (item 2 above), any future appreciation of the taxpayer’s interest in the Opportunity Fund subsequent to the Taxation Date will generally be tax-free to the investor if the investor holds the Opportunity Fund investment for more than ten years.

Importantly, a taxpayer must self-certify its investment in an Opportunity Fund. No approval or action is required by the Internal Revenue Service; rather, the taxpayer must complete the appropriate form and attach it to the taxpayer’s federal income tax return. Such form is not yet available, but is expected to be released by the IRS this summer.

Day Pitney Advisory

June 29, 2018

Day Pitney Author(s) Von E. Sanborn Aaron T. Kriss Jeffrey M. Kole

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Is Washington, D.C. Prepared for the Amazon HQ2 'Prosperity Bomb'?

The biggest news in economic development in the past year has been the bidding war among cities and counties in response to Amazon's announcement that it is seeking a location for a second headquarters (dubbed HQ2) which would employ up to 50,000 workers with an average annual compensation over $100,000. The company received more than 200 bids, and in January announced a short list of 20 finalists, including Washington D.C. and two areas in suburban Maryland and Northern Virginia.

As the countdown to a final decision continues, it's worth thinking about the impact—both positive and negative—if Amazon were to select the District proper, which is enjoying a renaissance that nonetheless leaves some residents and neighborhoods behind. A newspaper columnist in Seattle, the home of HQ1, coined the term "prosperity bomb" when reflecting on the upsides and downsides of the company's presence.

Washington, D.C. is a city with significant assets, enough to make us a serious contender for Amazon: an educated workforce, good schools (if you can afford to buy a house in the right neighborhood or know how navigate the system), renowned colleges and universities, and extensive public transportation and walkable communities. The addition of up to 50,000 new jobs, most of them high-paying, would further strengthen and diversify the city's economy, which has long relied on federal employment and associated industries.

Continue reading.

The Brookings Institute

by Martha Ross

Friday, June 29, 2018

New Municipal Public Right of Way Laws Fueled by Changes to Ohio Revised Code.

In response to Ohio House Bill 478, new right of way (ROW) ordinances are currently being considered by a number of Ohio municipalities. Ohio House Bill 478 amends Ohio's existing laws governing use and occupancy of the public ROW to further accommodate small cell facilities in support of 5G cell phone technology. The new legislation will go into effect on August 1, 2018. (See Ohio House Bill 478)

As a result of the forthcoming changes to [1]ORC Chapter 4939 by Ohio House Bill 478, a flurry of Public Way Notices (PWN) have recently been filed with the Public Utilities Commission of Ohio

(PUCO) by municipalities considering the enactment of new or revised ROW ordinances. Since May 1, 2018, 27 PWNs have been filed with PUCO.

Although it seems likely that many of the newly proposed ROW ordinances being considered by municipalities are *intended* to apply to small cell facilities in the ROW, ambiguous language in certain sections of the new proposed ordinances could allow municipalities to impose their new requirements upon energy companies with existing facilities in the public ROW. Such application may cause permitting delays and increased costs for an energy company attempting to repair, replace, or maintain its infrastructure.

For instance, on May 4, 2018, an Ohio village filed a PWN for a proposed ordinance entitled "Small Cell Facilities for Wireless Support Structures." The title reflects that the proposed ordinance is intended to govern only wireless communication facilities in the ROW, but inexact drafting within the Village's new proposed ordinance could put energy companies at risk of falling under the new ROW rules for the Village. Examples include:

- The term *facilities* is undefined and used throughout the proposed ordinance, whereas the terms "Micro Wireless Facility" "Small Cell Facility", "Eligible Facilities" and "Wireless Facility" are all defined. One could argue that when *facilities* is used alone, it means something other than those specifically defined terms. Thus, *facilities* could be read to include underground or aboveground transmission and distribution lines.
- The term "Work Permit" is defined broadly as "A permit issued by the Village that must be obtained in order to perform any work in… any part of the public ROW…" This requirement could apply to any work by a utility on infrastructure located within the ROW, as it is not limited to ROW work involving small cell facilities and wireless support structures.

Similar problems from imprecise drafting may continue in other forthcoming ROW ordinances from municipalities that have recently filed PWNs.

Drafts of the proposed ordinances are not yet available from the majority municipalities that have recently filed. This is because of a new tactic employed by these municipalities – to file notice with PUCO of their consideration and proposed enactment of a public way ordinance, pursuant to ORC § 4939.04(E), without attaching the proposed ordinance supposedly under consideration. Many municipalities responded that the ordinance supposedly under consideration had not yet been drafted following written request of the proposed ordinances by the author. It seems these municipalities are taking the position that notice to PUCO of their consideration of an *undrafted* PWO somehow starts the 45-day notice period under ORC § 4939.04(E).

Application of new municipal ROW ordinances to energy service providers is not limited to the situation of imprecise drafting within an ordinance geared towards small cell facilities. Some of the PWNs filed with PUCO are for newly proposed municipal public way ordinances with broad and sweeping changes regarding a City's governance of the public way, intended to impact energy service providers.

For example, Akron's new proposed ordinance requires initial and annual registration with the City, and mandates registration fees, annual maintenance fees, new construction permit fees, and bonds for registration, construction, restoration, and removal, among other costly and burdensome requirements.

It is important for energy companies to be aware of the upcoming changes to municipal ROW ordinances in Ohio due to amendment of ORC 4939 from House Bill 478.

[1] Ohio Revised Code Chapter 4939 governs use of municipal public ways and generally grants authority to municipalities to manage the rights of way in their jurisdiction. House Bill 478 will amend Chapter 4939 to provide, among other things, that municipalities must permit wireless service providers, cable providers, and video service providers, to attach small cell wireless facilities to municipally owned support structures located in the right of way, including on utility poles, traffic signals, and street lights and to construct, maintain, operate, or replace a wireless support structure in the right-of-way.

Benesch

July 9, 2018

Why It May Be Time to Own Illinois, Connecticut Debt.

James Iselin, head of municipal finance for Neuberger Berman, discusses online tax collection and owning debt from Illinois and Connecticut. He speaks in this week's "Muni Moment" with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg Markets

June 29th, 2018, 7:33 AM PDT

University of Oklahoma Is Weighing Rent Subsidies for Troubled Dorm.

- **Apartment complex opening in August is only 28 percent leased**
- **Competitors have slashed rents as much as $100 per month**

The University of Oklahoma may aid a struggling municipal-bond financed luxury dorm by offering housing "scholarships" to help students afford rental payments, university administrators and the non-profit owner of the project said on a conference call with investors.

The university, which has about 27,000 students on its main campus in Norman, is also weighing whether to allow first year students to live in the 1,230-bed complex or reduce occupancy in other dorms. The new apartment building, known as Cross, opens in August and is just 28 percent leased. It features a "blow dry bar and salon," cycling studio, cafe and a Lululemon store.

"We are keenly aware of the challenges that Cross is facing," Steve Hicks, chief executive of Baton Rouge, Louisiana-based Provident Resources Group, a non-profit that financed the student housing with $250 million of municipal bonds, said on the call late Tuesday. "We have complete confidence that we have the right team to address these issues, these challenges and to effectively address them in the coming months."

The Oklahoma project and another municipal-bond financed complex at Texas A&M, which had to slash rents to fill beds, underscore the risk to investors of overbuilding luxury accommodations as students become more cost-conscious. While many universities have tapped outsiders to finance and build dorms to conserve money for academics, the University of Oklahoma project shows that developers will turn to the universities for assistance if projects falter.

In late May, S&P Global Ratings downgraded the dormitory bonds to BB, two steps into junk, and left a negative outlook on the securities, signaling they may be cut deeper. Some of the taxable securities due in 2037 last traded for an average of 88 cents on the dollar, down from about 109 cents in October.

Cross is opening in a housing market in Norman that “is very different,” than originally anticipated, said Marty McBurney, an assistant vice president at a unit of Balfour Beatty Plc, which built and manages Cross Village. The average occupancy for off-campus student housing is 74 percent and competitors have cut rents by as much as $100 a month.

“Competitors lowering their rates definitely had an impact on our rates,” McBurney said.

Cross was too slow to cut rents and had trouble attracting students earlier this year because it was still under construction and prospective residents couldn’t tour it, said Provident and Balfour executives.

Provident has hired a consultant to review and improve advertising and the university is marketing the complex to prospective transfer students, executives said. But there is a limit to the university’s assistance: Oklahoma won’t require sophomores to live on campus or return a $20 million lease payment, officials said.

There’s no danger of imminent default on the bonds. Cross has enough money to pay debt service in 2018 and 2019. Provident is forecasting 60 percent occupancy in 2019.

The university must analyze the impact of opening Cross to first year students on the revenue that supports existing dorms and the debt that financed them, said Chris Kuwitzky, the university’s chief financial officer.

“We can’t do anything that would harm the debt service coverage ratio on that debt,” Kuwitzky said, adding he expected to report back to investors in 30 to 60 days.

Provident and its banker Royal Bank of Canada are also studying the feasibility of buying some of the university’s existing dorms to crate a “housing system.” Provident would finance the purchase by selling new debt backed by revenue of the portfolio, allowing it to “cross-collateralize” the assets and revenue stream for the new bondholders.

Bloomberg

By Martin Z Braun

June 27, 2018, 7:17 AM PDT

Public Banking Will Be on the Ballot in L.A. this Fall.

The Los Angeles City Council is moving forward with a proposed ballot measure that would ask voters this fall whether they want to create a publicly owned bank.

In a unanimous vote, council members on Tuesday, June 26, gave the go-ahead to begin the process of adding a measure on the November 2018 ballot that would amend city charter in order to create a city-owned bank. The city's code currently prohibits it from entering into a "purely commercial venture," unless it's approved by voters.

To advocates, this move is a historic one that can set the tone for other public banking movements happening across the nation.

"The outcome will reflect the pulse of the national movement," says Trinity Tran with the Public Bank LA campaign.

Continue reading.

NEXT CITY

BY ALEJANDRA MOLINA | JUNE 29, 2018

L.A. Metro P3 Funding Options and the California Infrastructure Financing Act .

The Los Angeles County Metropolitan Transportation Authority (Metro) is the agency that operates public transportation for all of Los Angeles County. With the passage of Measure M by voters in 2016, Metro has signaled their intent to improve and expand public transit in L.A. County. Just this year, Metro adopted "Twenty-Eight by '28," an initiative spearheaded by Mayor Eric Garcetti. The initiative aims to complete 28 major transportation projects by the 2028 Summer Olympic Games, set to be hosted in Los Angeles. This is an ambitious goal. Of the projects listed, 17 are already scheduled to be completed by 2028; however, eight have schedules that would need to be advanced, and three would need new funding resources.

In order to secure accelerated funding, Metro has been publicly exploring the option of using Public-Private Partnerships (P3). In this type of partnership, a public agency trades some sort of long-term return, such as fares or tolls collected, in return for a private investment. P3s, while becoming increasingly common in the United States, have never been used on the scale of a multi-billion dollar rail line through one of the most densely populated corridors in the country. Given the uptick in interest by local governments to utilizing P3s to fund infrastructure projects, an understanding of the P3 laws in California will be extremely important for companies hoping to take advantage of such opportunities.

The California Infrastructure Financing Act (IFA; Cal. Gov't Code § 5956 et seq.) is broadly applicable to California public agencies below the state level, including cities, counties, joint powers authorities, local transportation commissions or authorities, or "any other public or municipal corporation."

The IFA states, "a governmental agency may use private infrastructure financing pursuant to this chapter as the exclusive revenue source or as a supplemental revenue source with federal or local funds" (Cal. Gov't Code § 5956.9). The statute does prohibit the use of the act for "state projects" though, including "state-financed projects" (Cal. Gov't Code § 5956.10).

One of the main advantages of the IFA for both the public and private partner are the broad exemptions granted from many standard contracting limitation in the Government and Public Contract Codes. This flexibility was intentional—giving local agencies broad latitude to "utilize private investment capital" to meet their needs (Cal. Gov't Code § 5956.1). Instead of the traditional public bidding process, the statute requires "competitive negotiation" and also affirmatively allows agencies to consider unsolicited proposals. Competitive negotiation is something different, and less stringent, than competitive bidding. Local government agencies have the authority to develop projects proposed by a private entity and then competitively negotiate exclusively with that single entity (Cal. Gov't Code § 5956.5). This competitive negotiation process works like an arms-length transaction in the private sector and is based on a best value methodology.

Other than competitive negotiation, the only other constraints on the selection process written into the IFA are three general requirements:

1. The primary selection criteria must be demonstrated competence and qualifications of the private entity for the relevant tasks;
2. The selection criteria shall ensure that the facility be operated at fair and reasonable prices to users; and
3. The competitive negotiation process must prohibit illegal practices such as kickbacks and participation in the selection process by government employees who have a relationship with a private entity.

Nevertheless, the IFA does limit an agency's authority to pursue P3s to "fee-producing infrastructure project[s] or fee-producing infrastructure facilit[ies]," meaning the "project or facility will be paid for by the persons or entities benefited by or utilizing the project or facility" (Cal. Gov't Code § 5956.3). Examples of fee-producing infrastructure facilities or projects include airports and runways, tunnels, highways or bridges, commuter and light rail, and municipal improvements, among others (Cal. Gov't Code § 5956.4). It should also be noted that revenues cannot be diverted by the local governmental agency for other purposes (Cal. Gov't Code § 5956.6). Additionally, any agreement for the government entity to lease the facilities to the private entity is limited to a maximum of 35 years, at the end of which, ownership and possession must revert to the agency at no charge.

Though the positives and negatives of public-private partnerships differ from project to project, it's easy to see the appeal of P3 in situations where time is of the essence. Traditional contracts without any private financing typically require a cumbersome competition process. P3s, on the other hand, can be awarded on a sole-source basis as long as the finalized contract followed a "competitive negotiation" process.

by Kevin Massoudi

USA June 29 2018

Pillsbury Winthrop Shaw Pittman LLP

[Puerto Rico Overseers Scale Back Spending After Labor-Law Changes Fail.]

The U.S. territory's financial supervisors cut bondholder payments by more than half over 30 years

Puerto Rico's federal supervisors said they would cut government spending and scale back economic growth projections after the U.S. territory's legislature declined to overhaul labor laws.

The federal board overseeing Puerto Rico's finances voted to cut bondholder payments, university scholarships, municipal subsidies and public employee bonuses after lawmakers didn't adopt at-will employment laws designed to spark hiring and economic growth.

The revised fiscal framework also leaves less money for infrastructure investments and for Puerto Rico's legislature and judiciary. The pot of money available for bondholders was slashed to $14 billion over 30 years from $39 billion, according to the oversight board's executive director Natalie Jaresko.

Revising labor laws has been a top priority for the oversight board. Puerto Rico's 40% labor participation rate is the lowest in the U.S., while youth unemployment on the island is 24%, more than double the overall U.S. rate, according to World Bank data.

Puerto Rico owes roughly $70 billion to bondholders and $50 billion in unfunded pension obligations and is restructuring those debts under a court-supervised bankruptcy proceeding. The oversight board was counting on bringing more residents into the workforce to increase tax collections.

But lawmakers balked at repealing labor protections that impose strict liability on employers for discharging workers.

The reduction in debt payments could complicate Puerto Rico's exit from court protection—the larger the losses that need to be imposed on bondholders, the harder it will be to negotiate settlements with them.

"When reforms to increase economic growth are not implemented, unfortunately, more cuts and more controls are needed," oversight board member Ana Matosantos said at a Friday news conference.

The oversight board is also clashing with Puerto Rico Gov. Ricardo Rosselló over pension cuts and other austerity measures as bondholders and retirees compete for top status in the restructuring.

Puerto Rico is struggling to rebuild following a devastating hurricane season last year that destroyed the power grid, killed an unknown number of residents and drove hundreds of thousands more to the mainland U.S.

The electric power authority known as Prepa is $9 billion in debt and under bankruptcy protection as well. Harvard University researchers last month estimated the death toll from Hurricane Maria at more than 4,600, far exceeding previous official figures.

Puerto Rico bonds have nonetheless rallied in recent months as government revenue rebounded stronger than expected and insurance payments rolled in for property damage and lost business.

The Wall Street Journal

By Andrew Scurria

June 29, 2018 6:58 p.m. ET

[Why California Is Losing Teachers and Laying Off Secretaries.]

Sacramento is flush, but cities and school districts can't keep up with rising public pension costs.

Nine years into a bull market, housing prices in California have reached record highs. Investors are enjoying soaring capital gains, which in turn has created a windfall for the state budget. California is now sitting on $16 billion in budget reserves while many states struggle to balance their budgets. But beneath this patina of prosperity, many cities are careening toward bankruptcy. Schools are laying off employees and slashing programs. Some districts complain they are having trouble retaining teachers. What gives?

California property taxes, which fund local governments, are capped by the state constitution's Proposition 13 at 1% of a home's value and can't rise by more than 2% annually. So although housing costs have soared since the recession—the median home price in San Francisco is $1.6 million—cities and school districts aren't rolling in the dough.

At the same time, municipalities are getting socked with big bills from the California Public Employees' Retirement System and the California State Teachers' Retirement System, known as Calpers and Calstrs. For years the two funds overestimated their investment returns while underestimating their expected payouts. This helped keep local-government and worker pension costs low for a while, but now the state, cities and school districts are having to play catch-up.

Continue reading.

The Wall Street Journal

By Allysia Finley

June 29, 2018 7:23 p.m. ET
