
Do Municipal Bond Exchange-Traded Funds Improve Market Quality?

In this paper, Justin Marlowe of the Harris School of Public Policy at the University of Chicago examines the relationship between exchange-traded funds (ETFs) and the liquidity profiles of municipal bonds. Like mutual funds, ETFs own the underlying bonds and can create and redeem shares in the fund every day. Unlike mutual funds, investors in ETFs can trade in and out of positions throughout the day because ETFs trade like a stock on an exchange. This makes them attractive to investors who want a degree of liquidity not typically available in fixed income over-the-counter markets. ETFs are, in many ways, an ideal innovation for the municipal bond (i.e. “muni”) market. The muni market is fragmented and comparatively illiquid. Unlike publicly-traded corporations, state and local government financial disclosure is largely unregulated, so price-relevant information can be costly to obtain. This lack of liquidity and high search costs are reflected in mark-ups on muni trades that are often orders of magnitude larger than similar trades in corporates or equities. The muni market has high barriers to entry, but ETFs are a comparatively low-cost, well-diversified, and richly-informed vehicle for investors to access it.

But despite these benefits, ETFs also raise concerns for regulators and policymakers. Many of those concerns surround liquidity dynamics. Like with many fixed income ETFs, the bonds held by muni ETFs can be considerably less liquid than the ETF itself. That can create a substantial liquidity mismatch where ETF issuers might need to buy (sell) a particular bond at a considerable price premium (discount) when liquidity is scarce. This mismatch can distort the relationship between the ETF’s net asset value and its share price. It can also uncouple the ETF from the market index it is designed to track.

This paper is the first to examine the implications of ETF ownership for individual municipal bonds. Using data on the bond-level holdings of ETFs from 2010-2020, Marlowe finds that bonds held by ETFs tend to trade more often than bonds held by mutual funds, but with little or no impact on price dispersion, returns, or systematic risk. However, these effects vary considerably by the type of bond. Lower credit quality bonds held by ETFs tend to trade much more frequently than those with higher credit quality. Market conditions also matter. During the COVID-19 market dislocation of March 2020, bonds held by ETFs traded far less often. These results have implications for regulators’ stated concerns about the liquidity differential between ETFs and their underlying holdings, especially during market downturns. Marlowe’s findings suggest that at best ETFs bolster municipal bond liquidity overall, and at worst, bonds held by ETFs are no less liquid than bonds held in mutual funds.

[Read the full paper here»](#)

The Brookings Institution

by Justin Marlowe

December 14, 2020

Fall 2020 Issue of The Bond Lawyer.

The Fall 2020 issue of The Bond Lawyer® is now available. Download and view the online document [here](#).

The Bond Lawyer®: The Journal of the National Association of Bond Lawyers is published quarterly, for distribution to members of the Association. Article submissions and comments should be submitted to Linda Wyman, (202) 503-3300.

Governmental Accounting, Auditing, and Financial Reporting 2020 Edition.

GFOA has published Governmental Accounting, Auditing, and Financial Reporting (GAAFR or “Blue Book”) for the past 85 years with hundreds of thousands of copies sold. This edition has been updated to incorporate all of the guidance of the GASB through GASB Statement No. 91, as well as GFOA’s current best practices on accounting, auditing, and financial reporting.

[Purchase.](#)

NASBO State Expenditure Report.

This annual report examines spending in the functional areas of state budgets: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and all other. It also includes data on capital spending by program area, as well as information on general fund and transportation fund revenue collections.

Overview: Fiscal 2018-2020

- Total state spending (including general funds, other state funds, bonds, and federal funds) grew 7.8 percent in estimated fiscal 2020.
- Federal funds are estimated to have increased 14.1 percent in fiscal 2020, the highest annual growth rate since the Great Recession. The sizeable increase in federal funds spending is largely due to additional federal aid states received in response to the COVID-19 pandemic, including the CARES ACT and increased FMAP.
- Spending from states’ own funds (general funds and other state funds combined, excluding bonds) rose 5.1 percent in estimated fiscal 2020.
- The “all other” category saw the largest gain in total state spending in fiscal 2020, at 12.6 percent. Many of the top expenditure areas for CARES Act funds fall under the “all other” category including unemployment insurance, public health programs, housing assistance, emergency management, economic relief, aid to local governments, and broadband and other technology upgrades.
- State general fund revenue declined 0.8 percent in fiscal 2020, the first decline since the Great Recession. The revenue data in this report are based on estimates provided over the summer and are subject to change; NASBO’s Fall Fiscal Survey of States, to be released in December, will provide preliminary actual data on general fund revenues for fiscal 2020.

[Download Summary.](#)

[Download Full Report.](#)

National Organization of State Budget Officers

Staff Contact

Brian Sigritz

202-624-8439

bsigritz@nasbo.org

[Get Your Copy of the New Federal Taxation of Municipal Bonds Deskbook Today!](#)

The latest edition of the [Federal Taxation of Municipal Deskbook](#), prepared by NABL's Section 103 Editorial Board, is now available! The new edition gathers a selection of the most used IRC sections and applicable regulations dealing with municipal finance as well as the most relevant statutory and legislative history cites for each section, SLGS regulations and important revenue procedures.

It also includes:

- Proposed Treasury Regulation § 1.1001-6 regarding transition from interbank offered rates.
- Treasury Decisions 9854 which makes changes to Treasury Regulation § 1.148-2 and makes final Treasury Regulations § 1.148-11(n), Investment-type property.
- Rev. Proc. 2019-17 regarding qualified residential rental projects to use certain group references for tenants.
- Notice 2019-39 regarding current refunding for certain targeted state, local and Indian tribal government bond programs.

The deskbook is organized by code section for easy reference, and it's a great resource for bond and tax attorneys, issuers, underwriters, and financial advisors who need fast access and definitive answers.

NABL also recently released the Eighth Edition of the [Federal Securities Laws of Municipal Bonds Deskbook](#). This is an essential guide for all bond lawyers, regulatory staff, in-house counsel for investment banking firms and banks, state and local government attorneys, and other securities professionals. Prepared by members of NABL's Securities Law Editorial Board, this comprehensive publication delivers all key materials relating to the federal securities laws of municipal bonds in a portable deskbook and companion eBook with expanded content.

The new edition includes updates to the SEC and MSRB Rules and the most recent relevant MSRB notices and SEC Actions. It also contains key sections of the Securities Act of 1933, Securities Exchange Act of 1934, and the Investment Company Act of 1940, as well as select SEC cease-and-desist orders, interpretive and no-action letters, and summaries of important SEC enforcement actions and reports.

[US Fixed Income Issuance and Outstanding: SIFMA Research Quarterly](#)

A quarterly report containing brief commentary and statistics on total U.S. fixed income markets.

[Research Quarterly, Fixed Income](#)

November 6, 2020

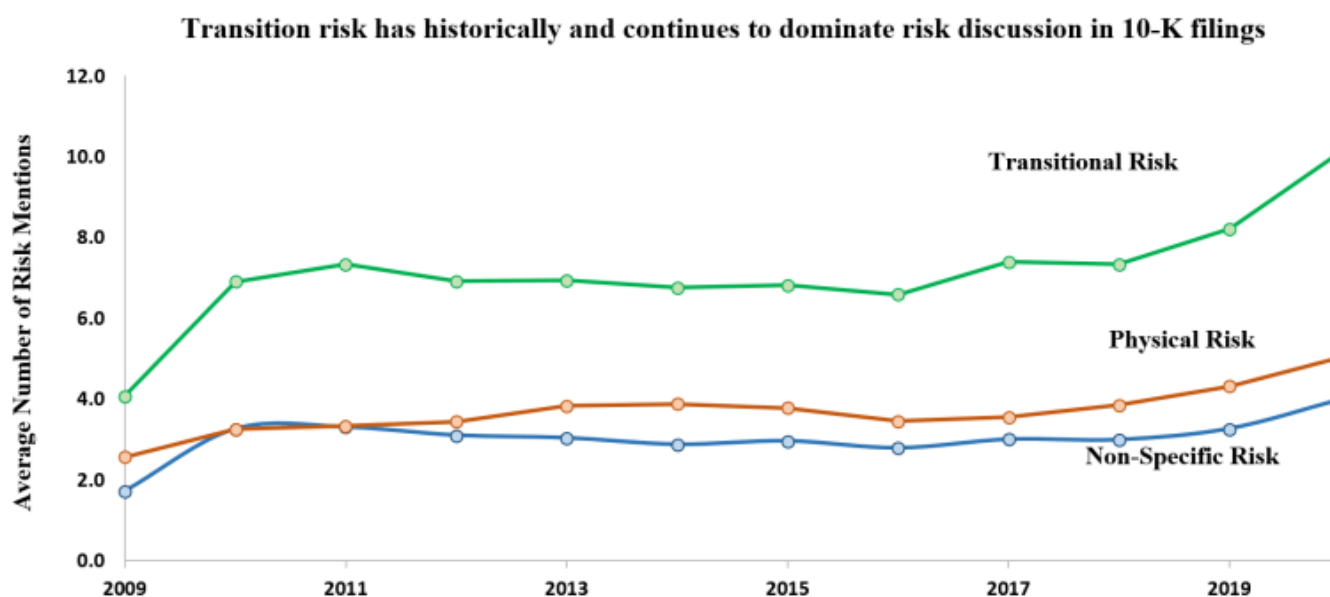
[Flying Blind: What Do Investors Really Know About Climate Change Risks in the U.S. Equity and Municipal Debt Markets?](#)

We assess how rising concerns about climate change affect disclosures to financial markets.

For equities, we look systematically at 10-K filings from the 3,000 largest U.S. publicly traded firms over the last 12 years and samplings of Official Statements from U.S. municipal bonds. Disclosure has risen sharply. Today, 60 percent of publicly traded firms reveal at least something about climate change. The largest volumes of information concern risks due to possible transition away from fossil fuels. By contrast, there is much less disclosure around the physical risks of climate change, such as sea-level rise (see chart).

In municipal finance, disclosure of physical risks is even weaker, although many municipalities are exposed to flood, fire, heat stress, and other perils that could destroy infrastructure and undermine the tax and income bases essential to repayment of long duration bonds. Looking at large samples of the Official Statements released with new municipal debt issuances, we find no relationship between objective measures of which municipalities are most exposed to climate impacts and what they disclose to the markets.

Although policy makers and investor ESG frameworks have focused klieg lights on the financial risks that might accompany policy-driven transitions away from fossil fuels, the real mispriced risks lie with the raw physical risks of a changing climate. Details are presented in the Supplemental Information appendix.



Note: The methodology for gathering this data is explained in Figure 1 and Figure 3 of the working paper. The figure above looks at the average number of risk mentions by category in one 10-K per company by year. It is clear from the chart above that transition risk has historically and continues to dominate climate risk discussion. There is an open question about why the amount of disclosure spiked between 2009 and 2010. It is possible that the 2008 New York AG lawsuits against Xcel and AES played a role. It seems probable that the TCFD report in 2017 spurred the inflection seen in the graph for the years 2017-2020.

Source: Ceres/Cook/Morningstar 10-K Database and analysis by authors

We make two central arguments:

- The quality of disclosure is highly uneven and generally lousy.
- New analytical tools, regulatory incentives, and business practices can lower the cost and raise utility of meaningful disclosure, particularly if accompanied by stronger regulatory rules and industry norms. New practices at credit ratings agencies and rethinking of liability rules could accelerate best practices.

Among our specific findings:

- In 2009, the average firm mentioned climate-related risks 8.4 times in its 10-K. In 2020, that number was 19.1 times, primarily because a growing number of firms cite the risk.
- Four industries (oil and gas, power utilities, coal mining, and other mining) constitute 8 percent of the Russell 3000 (by count), but 58 percent of the mentions of climate-related risks in 2019.
- In our sample of municipal bond Official Statements, 10.5 percent of bonds tied to specific streams of revenue refer to climate risks, but only 3.8 percent of general obligation bonds do.
- Innovations in climate science over the last decade make it possible to assess these physical risks at fine geographical resolution, but we find no relationship between such measures and municipal disclosure.
- Climate risks are rarely material rating decisions of major credit rating agencies.

Among our policy conclusions:

- Disclosure reflects a lack of imagination; much of the disclosure reflects risks easiest to measure, namely transition risk, rather than significant physical risk. What's missing is an effort with a system-wide view, primarily rating agencies and regulators, to tie the risks together.
- Disclosure by issuers of municipal debt would be improved by building national databases of critical infrastructure and exposure to climate-related perils. Regulators in states most vulnerable, such as Florida and California, could take the lead in experimentation. National regulators (FASB, PCAOB, the Fed) should promote best practices and emphasize fiduciary responsibilities.
- Incentives must be better aligned to promote forthright disclosure, particularly via practices at FEMA and flood insurance providers.
- Activists and analysts are fighting the wrong fight. The extraordinary attention to transition risk aligns with most mental models of how financial assets might be affected by climate policy, but the real push for better disclosure should be on physical risks.

[Read the full paper here»](#)

[Find supplemental information here»](#)

The Brookings Institute

by Parker Bolstad, Sadie Frank, Eric Gesick, and David G. Victor

September 16, 2020

Eric Gesick was the Chief Underwriting Officer for AXIS Capital, a global specialty insurer and reinsurer, until July 31, 2020. The authors did not receive financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

[NABL: The Bond Lawyer - Summer 2020](#)

The Summer 2020 issue of The Bond Lawyer® is now available. Download the document [here](#) or view online [here](#).

The Bond Lawyer®: The Journal of the National Association of Bond Lawyers is published quarterly, for distribution to members of the Association. Article submissions and comments should be submitted to Linda Wyman, (202) 503-3300.

[NFMA Newsletter.](#)

The NFMA publishes newsletters for its membership. The current newsletter will bring members up to date on the activities of the NFMA and its societies during COVID-19.

To read the June 2020 issue of the NFMA Municipal Analyst Bulletin, [click here](#).

[NABL: The Bond Lawyer - Spring 2020](#)

The Spring 2020 issue of The Bond Lawyer® is now available. Download the document [here](#).

The Bond Lawyer®: The Journal of the National Association of Bond Lawyers is published quarterly, for distribution to members of the Association. Article submissions and comments should be submitted to Linda Wyman, (202) 503-3300.

[NEW! Governmental Accounting, Auditing, and Financial Reporting- 2020 Edition](#)

GFOA has published Governmental Accounting, Auditing, and Financial Reporting (GAAFR or “Blue Book”) for the past 85 years with hundreds of thousands of copies sold.

What you’ll find in this new edition:

- **Updates for 25 GASB Statements and 9 Implementation Guides issued since the 2012 GAAFR, including: Pensions, OPEB, Fair Value, Tax Abatements, Fiduciary Activities,**

Leases.

- **Governmental Accounting Standards Board (GASB) literature references changed to cite the GASB Codification.**
- **New/expanded chapters on Fair Value and Investments and on Environmental Obligations.**
- **Reordered accounting and financial reporting chapters for a more logical flow: Concepts → Basic Financial Statements, including Note Disclosures → RSI → Other Supplementary Information in the financial section of a CAFR → complete CAFR.**
- **Increased use of illustrative journal entries, including for pension and OPEB, defeasances using existing resources, irrevocable split-interest agreements, leases (lessor and lessee).**
- **Updated derivative reference rates to Secured Overnight Financing Rate (SOFR) and Effective Federal Funds Rate (EFFR) in place of LIBOR.**
- **Explanation of answers to the review questions moved to the end of each chapter, immediately following the questions.**

This edition has been updated to incorporate all of the guidance of the GASB through GASB Statement No. 91, as well as GFOA's current best practices on accounting, auditing, and financial reporting.

The publication will be available as a soft-cover book or e-book as well as the addition of a new subscription. Materials will be available by July 1, 2020.

- [View the brochure to learn more.](#)
- [Order online.](#)

[Fitch White Paper: ESG in Credit](#)

In our ESG in Credit white paper, we outline our approach to evaluating ESG risks in all our rated sectors and highlight key trends and patterns.

ESG investing has seen huge growth over the past few years. To provide transparency and robust reporting around how ESG affects credit risk, Fitch Ratings developed an integrated scoring system, ESG Relevance Scores, which clearly displays how ESG factors impact individual rating decisions.

In our **ESG in Credit** white paper, we outline our approach to evaluating ESG risks in all our rated sectors and highlight key trends and patterns.

[Download the White Paper.](#) [Public Finance section begins on p. 43.]

[Balancing the Budget in Bad Times: Primary Treatments for Reducing Cost and Enhancing Revenues in the Next 12 to 18 months.](#)

This paper is Part 1 of a two-part series and covers three topics:

1. The decision-making environment for Near-Term Treatments. These are things leaders can do to shape the environment to help reach the best decisions about how, when, and why to use Near-

Term Treatments.

2. A two-part management system for using Near-Term Treatments. These practices will help you get the most from your uses of the treatments.
3. The “primary” Near-Term Treatments. These are the lowest risk things you can do to balance your budget.

[Download Report.](#)

Government Finance Officers of America

Author: Shayne C. Kavanagh

[GFOA Releases New Financial Foundations Book.](#)

Financial Foundations for Thriving Communities introduces GFOA’s new Financial Foundations Framework. Organized into five pillars, the Framework shows you how to improve your financial position now and create a strong foundation for a thriving community over the long-term. Each pillar includes different leadership strategies and/or institutional design principles. Understanding that local governments cannot order people to collaborate, leadership strategies help inspire pride and public support for a strong financial foundation. Institutional design principles, meanwhile, are the “rules of the road.” They provide the context for leadership strategies and ensure continuity of good financial practices through changes in leadership. Using case studies from many local governments, the book will help you develop a plan for implementing the Financial Foundations Framework in your community.

[Purchase Online.](#)

[NASBO State Expenditure Report.](#)

This annual report examines spending in the functional areas of state budgets: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and all other. It also includes data on capital spending by program area, as well as information on general fund and transportation fund revenue collections.

Overview: Fiscal 2017-2019

- Total state spending rose by 5.7 percent in fiscal 2019, compared to 3.4 percent in fiscal 2018.
- Spending from states’ own funds increased at the highest annual growth rate since the last recession.
- Transportation and the “all other” category experienced strong spending growth from state funds in fiscal 2019, while Medicaid spending growth slowed.
- Spending from federal funds to states also rose in fiscal 2019, partly due to recent federal budget agreements.
- State tax collections experienced strong gains in both fiscal 2018 and fiscal 2019, following two years of slow growth in fiscal 2016 and fiscal 2017.
- [Download Summary.](#)
- [Download Full Report.](#)

- [Purchase Hard Copy.](#)

National Association of State Budget Officers

Staff Contact
Brian Sigritz
202-624-8439
bsigritz@nasbo.org

S&P: Not-For-Profit Health Care Medians Show Improvement Overall

NEW YORK (S&P Global Ratings) Sept. 4, 2019—The 2018 U.S. not-for-profit acute health care medians highlight continued stability in the sector and demonstrate that some of the operating concerns S&P Global Ratings had last year did not affect the 2018 medians. Operating income and operating cash flow have ceased their multi-year decline overall, while balance sheets remain stable at very strong levels, with many medians exceeding the prior peaks before the Great Recession. Overall enterprise profiles are improving.

These are among the highlights of our annual medians report, “U.S. Not-for-Profit Acute Health Care Ratios: 2018 Medians Show Operating Margin Improvement But Are Otherwise Stable,” published today.

“We expect continued stability for the near to medium term but note that the industry faces ongoing systemic risks, including a potential recession, continued Medicaid changes, increased traction from nontraditional competitors, the need to build out ambulatory care capacity, and heightened cost and revenue pressure in part due to an aging population,” says S&P Global Ratings credit analyst Anne Cosgrove.

S&P Global Ratings today also published:

U.S. Not-For-Profit Acute Health Care Stand-Alone Hospital Median Financial Ratios — 2018 vs. 2017, Sept. 4, 2019

U.S. Not-For-Profit Health Care System Median Financial Ratios — 2018 vs. 2017, Sept. 4, 2019

U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios — 2018 vs. 2017, Sept. 4, 2019

U.S. Not-For-Profit Health Care Children’s Hospital Median Financial Ratios — 2018 vs. 2017, Sept. 4, 2019

U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios — 2018 vs. 2017, Sept. 4, 2019

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings’ public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

S&P U.S. Not-for-Profit Acute Health Care Ratios: 2018 Medians Show Operating Margin Improvement But Are Otherwise Stable

Table of Contents

- Upgrades Exceeded Downgrades Through August 2019, But Outlooks Are Skewed Toward Negative
- Industry Trends Influencing These Medians: Management Teams Continue To Be Proactive
- Ratio Highlights: Providers Continue To Invest To Remain Competitive
- Overall Leverage Has Decreased And Contingent Debt Has Continued To Decline
- Many Operating Margins Were Boosted By FASB ASU 2017-17; Should Provide More Year-Over-Year Consistency In Operating Income
- Defined Benefit Funded Ratios Increased In Fiscal 2018 Due To A Higher Bond Rate
- Forward View: Broad Stability But Headwinds Will Continue
- Ratio Analysis
- Related Research

The 2018 U.S. not-for-profit acute health care medians highlight continued stability in the sector and demonstrate that some of the operating concerns S&P Global Ratings had last year did not affect the 2018 medians. Operating income and operating cash flow have ceased their multi-year decline (although there are numerous individual exceptions), while balance sheets remain stable at very strong levels, with many exceeding the prior peaks before the Great Recession. Overall enterprise profiles are improving as consolidation continues, including a growing array of diversifying joint ventures, even as new market entrants pressure existing business models. The vast majority of ratings remain stable with only 20 upgrades and 18 downgrades in 2019 through Aug. 15. In addition, 83% of rated health care providers have stable outlooks, but of the non-stable outlooks the majority are skewed toward negative at 12% compared to 5% positive. We expect continued stability for the near to medium term but note that the industry faces ongoing systemic risks. These risks include a potential recession, continued Medicaid changes, increased traction from nontraditional competitors, the need to build out ambulatory care capacity, and heightened cost and revenue pressure in part due to an aging population. Management teams have continued to navigate through these industry pressures and risks by being proactive and adopting and refining strategies to contend with these challenges. The potential ramifications of a recent court ruling that the Affordable Care Act (ACA) is unconstitutional could be severe if upheld, although in our view this threat, in the unlikely event that it occurs, would likely be a factor in 2020 or later.

[Continue reading.](#)

S&P: U.S. Not-For-Profit Acute Health Care Stand-Alone Hospital Median Financial Ratios -- 2018 vs. 2017

Table of Contents

- Ratio Analysis
- Related Research

Financial ratios for stand-alone hospitals in 2018 saw improvement in median operating margin across all rating categories and nearly all rating levels, representing a reversal of the significant

trend of tightening performance that was first documented in 2016. This observation is consistent with health system medians, as well as the overall median level for our entire rated acute care sector including both stand-alone hospitals and health systems. In addition, balance sheet medians for stand-alone hospitals generally held stable in 2018, with mixed results across most rating levels and rating categories and some minor weakening in debt-related metrics. We believe the sharp investment market decline at the end of calendar 2018 played a role in pressuring the fiscal 2018 balance sheet medians as about one-third of all hospitals have Dec. 31 year-ends. Most rated stand-alone hospitals experienced some balance sheet recovery in early 2019, as unrealized investment losses were offset wholly, or at least partly, by year-to-date equity market gains.

[Continue reading.](#)

S&P: U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2018 vs. 2017

Table of Contents

- Ratio Analysis
- Related Research

Health care system medians for 2018 generally followed the trends displayed across the entire acute care sector. Overall median operating margins for health systems improved, reversing a multi-year decline, which started in 2016. However, maximum annual debt service (MADS) coverage declined slightly (see table 1), which is largely due to weaker non-operating income in 2018 following a strong non-operating year in 2017. Balance sheet metrics continued to remain broadly stable in 2018 with increasing unrestricted reserves and days' cash on hand and a stable debt profile, with slight reductions in leverage and contingent debt. In our view these trends are consistent with our stable outlook on the sector.

[Continue reading.](#)

S&P: U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios -- 2018 vs. 2017

Table of Contents

- Ratio Analysis
- Related Research

Stand-alone children's hospitals rated by S&P Global Ratings continue to exhibit healthy credit characteristics. This has led to favorable rating distributions, including an increasing number of rated children's hospitals within the 'AA' rating category over the last several years, with overall excellent financial median ratios reflecting stable and strong credit fundamentals. We rate 20 children's hospitals; 86% of them are rated 'A+' or higher, including one rated 'AA+', which is currently the highest rating that a U.S. not-for-profit acute health care provider has (see chart 1). Since our last published median report, two children's hospitals moved up to the 'AA' category from the 'A' category, and none moved to a lower rating. We added one new hospital, East Tennessee

Children's Hospital (A/Stable), to our portfolio in the past year. Children's hospitals have remained stable historically: 19 of the 20 carried a stable outlook at Aug. 15, 2019; one had a positive outlook (see chart 2). Because of the small sample size, we do not calculate financial medians on the individual rating level and have excluded the single 'BBB+' provider as well.

[Continue reading.](#)

S&P U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios -- 2018 vs. 2017

Table of Contents

- Key Takeaways
- Stand-Alone Hospitals Continue To Dominate The Speculative Grade Rating Categories
- Overall 2018 Credit Metrics Broadly Improve Over 2017
- Lower-Rated Credits Typically Remain In The Speculative Grade Category
- Our Speculative Grade Universe Has A Higher Percentage Of Negative Outlooks
- Separate Criteria Is Used For Organizations Rated 'CCC+' And Below
- Ratio Analysis
- Related Research

Key Takeaways

- Stand-alone hospitals continue to dominate the speculative grade category.
- Speculative grade credit metrics in 2018 show broad overall improvement compared to 2017, particularly with regard to operating performance and debt service coverage.
- There is a higher percentage of negative outlooks in our speculative rating categories than in the overall acute care not-for-profit provider portfolio.

[Continue reading.](#)

S&P U.S. Not-For-Profit: Health Care Small Stand-Alone Hospital Median Financial Ratios -- 2018 vs. 2017

Table of Contents

- Key Takeaways
- 2018 vs. 2017
- Broad Trends: Small Hospitals vs. Stand-Alone Hospitals
- Small Hospitals Skewed Toward The Lower Portion Of The Rating Spectrum
- Rating And Outlook Distribution
- Ratio Analysis
- Related Research

Key Takeaways

- Small hospitals' ratings are skewed toward the lower end of the spectrum compared to all stand-

alone hospitals given inherent risks associated with small hospitals, including small medical staffs and often small and narrow-based economies.

- The outlook distribution for small hospitals is consistent with the outlook distribution for the overall stand-alone sample.
- Compared to 2017, 2018 individual rating level results for the small hospital sample vary by rating level with a combination of improvement and declines.
- Compared to the broad stand-alone universe, balance sheet metrics including days' cash on hand, unrestricted reserves to long term debt and leverage, are significantly better. Operating margins; however, vary by rating category. Generally, small hospitals need to have stronger financial metrics than their larger stand-alone counterparts to achieve comparable ratings.

[Continue reading.](#)

Task Force on Climate-related Financial Disclosures: 2019 Status Report

2019 Status Report: Executive Summary

In June 2017, The Task Force on Climate-related Financial Disclosures (Task Force or TCFD) released its final recommendations (2017 report), which provide a framework for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes. In its 2017 report, the Task Force emphasized the importance of transparency in pricing risk—including risk related to climate change—to support informed, efficient capital-allocation decisions. The large-scale and complex nature of climate change makes it uniquely challenging, especially in the context of economic decision making. Furthermore, many companies incorrectly view the implications of climate change to be relevant only in the long term and, therefore, not necessarily relevant to decisions made today. Those views, however, have begun to change.

A Call to Action

Based on a recent report issued by the Intergovernmental Panel on Climate Change, a global group of climate scientists convened by the United Nations, urgent and unprecedented changes are needed to meet the goals of the Paris Agreement. The report warns limiting the global average temperature to a maximum of 1.5°C “require[s] rapid and far-reaching transitions in energy, land, urban and infrastructure [systems] (including transport and buildings), and industrial systems.” In fact, according to a recent United Nations Environment Programme report on emissions, global greenhouse gas emissions have to peak by 2020 and decline rapidly thereafter to limit the increase in the global average temperature to no more than 1.5°C above pre-industrial levels. However, based on current policies and commitments, “global emissions are not even estimated to peak by 2030—let alone by 2020.” As a result, governments and private-sector entities are considering a range of options for reducing global emissions, which could result in disruptive changes across economic sectors and regions in the near term.

Figure E1 (p. iii) illustrates the level of impact and risk on people, economies, and ecosystems associated with global average temperature increases. Importantly, four of the five categories of risk have increased since 2014 “based on multiple lines of evidence.” Now more than ever it is critical for companies to consider the impact of climate change and associated mitigation and adaptation efforts on their strategies and operations and disclose related material information. Companies that invest in activities that may not be viable in the longer term may be less resilient to risks related to climate change; and their investors may experience lower financial returns.

Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, investors need better information on how companies—across a wide range of sectors—have prepared or are preparing for a lower-carbon economy; and those companies that meet this need may have a competitive advantage over others.

In addition, there is a growing demand for decision-useful, climate-related financial information by investors. There are likely many factors driving investor demand, ranging from European regulations requiring certain investors to disclose climate-related information to weather-driven events resulting in significant financial impacts and leading investors to seek better information on their exposure to climate-related risks. As evidence of this demand, more than 340 investors with nearly \$34 trillion in assets under management have committed to engage the world's largest corporate greenhouse gas emitters to strengthen their climate-related disclosures by implementing the TCFD recommendations as part of Climate Action 100+.

There is also growing interest in climate-related financial disclosures by financial regulators. In April, the Network for Greening the Financial System (NGFS)—comprised of 36 central banks and supervisors and six observers, representing five continents—issued six recommendations aimed at facilitating the role of the financial sector in achieving the objectives of the Paris Agreement. One of the recommendations is to achieve robust and internationally consistent climate and environment-related disclosure; and the NGFS “encourages all companies issuing public debt or equity as well as financial sector institutions to disclose in line with the TCFD recommendations.”

Climate-Related Financial Disclosure Practices

As part of its efforts to promote adoption of the recommendations, the Task Force prepared this status report to provide an overview of current disclosure practices as they relate to the Task Force's recommendations, highlight key challenges associated with implementing the recommendations, and outline some of the efforts the Task Force will consider undertaking in coming months to help address some of the implementation challenges.

To better understand current climate-related financial disclosure practices and how they have evolved, the Task Force reviewed—using artificial intelligence technology—reports for over 1,000 large companies in multiple sectors and regions over a three-year period. In addition, the Task Force conducted a survey on companies' efforts to implement the TCFD recommendations as well as users' views on the usefulness of climate-related financial disclosures for decision-making. While the Task Force found some of the results of its disclosure review and survey encouraging, it is concerned that not enough companies are disclosing decision-useful climate-related financial information. This could be problematic for financial markets if market participants do not have sufficient information about the potential financial impact of climate-related issues on companies. Table E1 summarizes the key themes and findings from the Task Force's disclosure review and survey results.

In addition, Figure E2 (p. vi) provides a summary of additional themes and findings from this report, and Section A.2. Purpose of Report provides an overview of the report's major sections.

Overall, the Task Force found signs of progress in implementing the recommendations among companies traditionally engaged on climate-related issues. These companies demonstrate that disclosing climate-related information consistent with the TCFD recommendations is possible and is a journey of continuing improvement. Given the urgent and unprecedented changes needed to meet the goals of the Paris Agreement, the Task Force is concerned that not enough companies are disclosing information about their climate-related risks and opportunities.

The Task Force strongly encourages more companies to use its recommendations as a framework for

reporting on climate-related risks and opportunities, especially companies with material climate-related risks. Companies in early stages of evaluating the impact of climate change on their businesses and strategies and those that have determined climate-related issues are not material are encouraged to disclose information on their governance and risk management practices. To accelerate the disclosure of consistent, comparable, reliable, and clear climate-related financial information, the Task Force encourages investors and other users of such information to engage with companies on the specific types of information that are most useful for decision making.

The Task Force has often highlighted that implementation of its recommendations would be a journey, and it applauds those who have started down the path. The Task Force urges those companies to continually improve the quality and usefulness of their climate-related financial disclosures. For those companies that are “piloting” reporting internally, it is time to begin disclosing; and for those who have not started, now is the time.

Next Steps

The Task Force believes its climate-related financial disclosures review and survey results highlight the need for continued efforts to support implementation of the recommendations, especially in terms of companies using scenario analysis to assess the resilience of their strategies under a range of plausible future climate states. As such, over the next several months, the Task Force will continue to promote and monitor adoption of its recommendations and will prepare another status report for the Financial Stability Board in September 2020. In addition, the Task Force is considering additional work in the following areas:

- Clarifying elements of the Task Force’s supplemental guidance contained in the annex to its 2017 report (Implementing the Recommendations of the TCFD),
- Developing process guidance around how to introduce and conduct climate-related scenario analysis, and
- Identifying business-relevant and accessible climate-related scenarios.

The Task Force believes the success of its recommendations depends on continued, widespread adoption by companies in the financial and non-financial sectors. Through widespread adoption, climate-related risks and opportunities will become a natural part of companies’ risk management and strategic planning processes. As this occurs, companies’ and investors’ understanding of the financial implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital and contributing to a more orderly transition to a low-carbon economy.

2019 Status Report: Key Takeaways

Disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors. Based on the TCFD survey, the artificial intelligence review, and input from external initiatives, the Task Force sees progress being made to improve the availability and quality of climate-related financial information. However, given the speed at which changes are needed to limit the rise in the global average temperature—across a wide range of sectors—more companies need to consider the potential impact of climate change and disclose material findings.

More clarity is needed on the potential financial impact of climate-related issues on companies. The top area identified by users of climate-related financial disclosures as needing improvement is for companies to provide more clarity on the potential financial impact of climate-related issues on their businesses. Without such information, users may not have the information they need to make informed financial decisions.

Of companies using scenarios, the majority do not disclose information on the resilience of their strategies. Three out of five companies responding to the TCFD survey that view climate-related risk as material and use scenario analysis to assess the resilience of their strategies do not disclose information on the resilience of their strategies. This is an important gap in disclosure for companies with material climate-related risks, but it is consistent with the Task Force's understanding from discussions with various companies, industry associations, and other groups that companies are still early in the process of using climate-related scenarios internally, evolving their approaches, and learning how to integrate scenarios into corporate strategy formulation processes.

Mainstreaming climate-related issues requires the involvement of multiple functions. While sustainability and corporate responsibility functions are the primary drivers of TCFD implementation efforts, risk management, finance, and executive management are increasingly involved as well. The Task Force believes involvement of multiple functions is critical to mainstreaming climate-related issues, especially the involvement of the risk management and finance functions.

[Download the Report.](#)

[Spring 2019 Fiscal Survey of States: NASBO](#)

Governors' recommended budgets for fiscal 2020 reflect stable state fiscal conditions, calling for investments in key priorities while saving for future challenges. Proposed spending plans would increase general fund expenditures by **3.7 percent** in fiscal 2020, with **47 states** proposing spending increases and governors directing the majority of new money to education.

Other key findings from the report:

- Governors proposed appropriation increases totaling **\$30.8 billion** in fiscal 2020, including **\$14.1 billion** in new money for K-12 education and **\$3.6 billion** for higher education.
- States estimate general fund spending grew **5.8 percent** in fiscal 2019, the fastest annual growth rate since fiscal 2007.
- **No states** made mid-year budget cuts in fiscal 2019 due to a revenue shortfall, and only **3 states** made small mid-year reductions for other reasons.
- **28 states** reported fiscal 2019 general fund revenue collections exceeding projections, with this number expected to grow after accounting for April receipts.
- Governors' budgets are based on forecasted general fund revenue growth of **4.0 percent** in fiscal 2020.
- Governors proposed a series of revenue actions consisting mostly of tax increases, including a number of proposals directed towards transportation, with a net revenue impact of **\$8.1 billion** in fiscal 2020.
- The median rainy day fund balance as a share of general fund spending reached **7.5 percent** in fiscal 2019, a new all-time high.
- Medicaid spending from all funds is expected to grow **4.0 percent** in fiscal 2020, with state funds increasing **3.1 percent** and federal funds growing **4.5 percent**.

[Download the Full Report.](#)

Public Charter Schools: Borrowing With Tax-Exempt Bonds (Third Edition) - Orrick

The main purpose of this booklet is to provide public charter schools and their stakeholders relevant information about the benefits of tax-exempt financing.

[Download the full Publication.](#)

Orrick, Herrington & Sutcliffe LLP

Eugene Clark-Herrera, Marc Bauer, Todd Brewer, Steffi Chan, Darrin Glymph, Kathryn Garner, Alison Radecki

SIFMA 2019 Outlook: Trends in the Capital Markets

SUMMARY

Efficient capital markets are essential to a vibrant economy. By driving capital and credit to the best ideas and enterprises, they propel them and our country forward.

The global financial system has adopted an unprecedented volume of new regulations since the crisis, affecting everything from market structure to capital standards. As we look to 2019 and beyond, now is the time to ask, what reforms are working? Which would benefit from harmonization? What new risks have arisen? How do we make sure institutions can provide capital and credit to the economy?

SIFMA convenes hundreds of broker-dealers, investment banks and asset managers, representing one million industry employees across the nation. Together, we are invested in America, serving clients large and small. [This report](#) contains our insights into how markets performed, viewpoints on critical policy issues and several helpful resources.

What's Inside

Market Insights:

- Capital Markets Depth and Liquidity
- Market Structure: Efficiency & Resiliency Key to Capital Markets Strength
- Equities Markets: Volatility Picked Up, Volumes Started to Follow
- Capital Formation: Hurdles Continue, or Do They?
- Fixed Income Markets: The Transformation Continues
- Private Wealth Management: Savings and Wealth Creation and The Role of the Financial Advisor
- Opportunities in Fintech and Operations

Policy Viewpoints:

- Cybersecurity Remains Priority One
- Safe Handling of Personally Identifiable Information
- Enhancing Investor Protection with Reg BI
- Protecting Senior Investors
- Fixing the Broken Fee Structure for Market Data

- Looking Across Geographical Borders
- Seeking Recalibration and Global Harmonization of Financial Regulation
- The Two-Track Regime
- A Spider Web of Regulations
- CAT Implementation Moves Ahead

About SIFMA:

- Our Mission
- Our Members
- The GFMA Partnership
- Our Committees
- Community
- The SIFMA Foundation

Resources:

- 2018-2019 Board Officers
- Key Contacts
- How Markets Work
- 2019 Conferences & Events
- Business Continuity Planning and Cybersecurity
- 2019 US Holiday Schedule
- Terms to Know

[MBFA & Court Street Group Research Create a Muni 101 Primer.](#)

[Read the Primer.](#)

Contact Justin Underwood at justin@munibondsforamerica.org to receive a hard copy.

Municipal Bonds for America

Tax Advantages and Imperfect Competition in Auctions for Municipal Bonds.

State and local governments finance multi-year expenditures by issuing municipal bonds. To reduce the borrowing costs of state and local governments, municipal bond income is excluded from federal and, in most cases, state taxation. This tax advantage creates a tax expenditure for the federal and state governments, which is forecast to cost the federal government alone more than \$500 billion over the coming decade. It has been rising over time, and is mainly enjoyed by top-income individuals. Not surprisingly, the tax advantage of municipal bonds has been the subject of a controversial policy debate.

This paper contributes to this debate by showing that the interaction between tax advantages and the structure of municipal bond issuance market, plays a crucial role in determining the effect of tax advantages on borrowing rates and the efficiency of this subsidy. Specifically, the authors analyze a novel dataset on over 14,000 new issuances of municipal bonds sold at auction between 2008 and 2015. The authors exploit within-state changes in taxes over time to show that tax advantages have

large effects on the borrowing costs of state and local governments. They then develop an empirical auction model that clarifies the economic mechanisms in this market. Finally, they use the estimated model to evaluate recent proposals by the Obama and Trump administrations, as well as parts of the Tax Cuts and Jobs Act of 2017 (TCJA17) that affect the tax advantages of municipal bonds. By highlighting the interactions between taxes and imperfect competition, their results suggest a fundamental reassessment of the mechanism through which tax subsidies reduce borrowing costs, and provide new evidence suggesting that tax subsidies may be more efficient at subsidizing local borrowing costs than previously thought.

The rest of the paper is organized as follows. The authors describe the institutional context and their data in Section 2. Section 3 describes reduced-form relationships between tax advantages, borrowing costs, and imperfect competition in auctions for municipal bonds. In Section 4, the authors develop an auction model for municipal debt with tax advantages. Section 5 describes the estimation procedure and results of this model, and Section 6 explores the mechanisms through which taxes influence municipal borrowing costs. The authors simulate the effects of policy counterfactuals in Section 7. Section 8 concludes.

Read the full paper [here](#).

The Brookings Institute

by Daniel Garrett, Andrey Ordin, James W. Roberts, and Juan Carlos Suárez Serrato

November 30, 2018

[SIFMA Report: US Municipal Trading](#)

Monthly, quarterly or annual trading volume for the U.S. municipal bond market.

[Read the Report.](#)

November 1, 2018

[SIFMA Report: US Municipal Issuance](#)

Monthly, quarterly or annual municipal bond issuance volumes and breakdowns for the U.S. municipal market. Volumes broken out by GO/Revenue, coupon type, callable/noncallable, new financing/refunding, and average maturity.

[Read the Report.](#)

November 1, 2018

[Disclosure Obligations of Issuers of Municipal Securities: Orrick](#)

Orrick has published a Second Edition of our booklet titled “[Disclosure Obligations of Issuers of Municipal Securities](#).” In addition to updating for certain new S.E.C. Rules, the Second Edition contains a new chapter highlighting trends in, and summarizing more than 20 recent lawsuits and administrative actions brought by, the S.E.C.’s Enforcement Division against issuers, obligated persons and others in the municipal industry. These enforcement actions have targeted many different municipal market participants, including in many cases their individual staff members or employees.

October 26, 2018

[When Is a Public/Private Partnership the Right Choice?](#)

Between 2016 and 2025, state and local governments are projected to spend an estimated \$1.88 trillion on building and rebuilding public infrastructure. But the American Society of Civil Engineers (ASCE) estimates that in addition to this significant amount of infrastructure spending, a \$1.4 trillion gap in needed infrastructure will remain. The ASCE estimates that the aggregate economic impact of the failure to fund this gap would add up to a loss of nearly \$4 trillion in gross domestic product (GDP) by 2025. Many pundits have hailed access to private capital through public/private partnerships (PPPs) as the Holy Grail with the power to unlock private sector infrastructure delivery efficiencies, which will provide the impetus for state and local governments to fill the gap.

Given this momentum toward considering PPPs, our research team at the Harvard Kennedy School of Government has created an interactive web-based Decision Tree application to help state and local government officials and administrators determine when to use traditional infrastructure delivery methods and municipal financing, or when to access private capital and PPP delivery methods, with guidance on which PPP delivery method should be used. The Decision Tree can be accessed at www.P3Guide.com.

The Decision Tree is based on practical experiential input and interviews with government procurement officials, financial market professionals, engineering experts, and infrastructure purveyors in both the traditional and PPP infrastructure delivery arenas. Team members also surveyed the literature on PPPs and analyzed major projects from the United States and abroad. While many people have begun promoting the expanded use of PPPs, others counter that municipal bond market finance and traditional infrastructure delivery vehicles, such as design/bid/build, and traditional sources of public sector capital, including taxes, federal grants, and user fees, have done a credible job in delivering trillions of dollars’ worth of public infrastructure, so why change what works? They argue that only more federal dollars funneled to state and local governments will work to close the infrastructure delivery gap, positing that the problem lies not with the method of procurement, but with the identification of additional federal sources of revenue to pay for nationally important infrastructure projects.

Still other industry players, such as purveyors of public infrastructure (e.g., engineers, contractors, construction companies, and equipment vendors) and providers of private capital (e.g., private equity funds, pension funds, and infrastructure banks), respond that the infrastructure delivery gap demonstrates a structural failure in traditional delivery methods and that the unique characteristics of PPPs—while not a panacea for all public infrastructure woes—can begin to fill the gap not being addressed by traditional delivery methods. They see PPPs less as supplanting traditional infrastructure delivery methods and more as being additive to and thriving alongside them. They argue that if PPPs can effectively draw down a meaningful portion of gap projects, traditional

delivery vehicles will remain sufficient to handle the lion's share of infrastructure projects that they currently implement.

Veteran political policy experts add their skepticism, arguing that waiting for Congress and the president to authorize meaningful additional federal funding for public infrastructure construction may not be a successful short-term strategy for state and local governments. They raise understandable concerns that the passage of H.R. 1—the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017—has drastically limited the future availability of unallocated federal monies for infrastructure funding. While the Consolidated Appropriations Act, 2018, provided an approximate \$21 billion one-year infusion of infrastructure funding in a trade-off for approval of increased military spending, that funding makes only a small dent in the infrastructure spending gap and provided no long-term structural solutions to the challenge of funding infrastructure.

In early 2018, President Donald J. Trump unveiled his ten-year, \$1.5 trillion infrastructure project vision and proposed infrastructure plan to much fanfare from his base and significant dismay from state and local officials. If Congress were to approve the Trump plan (which veteran policy experts predict has a low probability), federal funding of state and local infrastructure would be reduced significantly due to a lowering of federal matching funds—traditionally a 50/50 split—to 20 percent of project costs, with state and local governments picking up 80 percent of the trillion-dollar funding lift sustained by redesignation of existing federal financing dollars (which some skeptics compare to rearranging the deck chairs on the Titanic). As noted in *The Bond Buyer*, quoting Chris Hamel, former head of municipal finance at RBC Capital Markets, “President Trump’s infrastructure plan is less important for the funding it may provide, but rather is significant because of its bold and sweeping proposals to move federal policy toward the involvement of the private sector in the provision of public infrastructure.”

Where does this leave state and local governments facing the real conundrum of how to protect public health, safety, and welfare with the seemingly intractable dilemma of finding the funds needed to fix the nation’s public infrastructure deficit? As noted by S&P Global, “[t]he problem for U.S. infrastructure has never been a shortage of private capital, but rather how it is paid for.” State and local governments are left having to find a new mix of traditional existing infrastructure funding and delivery tools with which private capital and PPPs must play a significant role alongside traditional public infrastructure delivery. This may include challenging the traditional infrastructure paradigm that essential public services, such as roads, should be free or affordable, as is the case with drinking water.

Given this dialogue on the use of PPPs, we have structured the Decision Tree around three principal infrastructure project goals (complete project within budget, complete project on time, and project works as designed) and four principal analytic considerations (legislative, financial, technical, and political). The three project goals need no explanation. The Decision Tree defines the various PPP procurement structures and then allows the viewer to access decision tools that lead the viewer through a series of questions related to the four principal analytic considerations identified above and, depending on the answers to the questions, suggests an appropriate procurement methodology. For example, under “technical considerations,” the user is asked: “Does this project have technical complexity beyond your governmental entity’s competencies?”

Continuing within the technical considerations box, users will find other questions related to their particular infrastructure project, including the degree of technical complexity, the use of new technology, and the level of experience/manpower/competency of the staff and management team to manage the public infrastructure construction and its subsequent operation and maintenance. Within the legislative considerations box, users will find and apply the particular constitutional, statutory, and local government charter and procurement framework under which they operate.

Within the financial considerations box, users will find questions related to their government's access to capital markets, limitations on borrowing capacity, bond ratings, bond market capacity, demand risks, and differential costs of capital. Financial considerations responses are given the greatest weight in the PPP decision recommendations. In some instances, a governmental entity does not have ready access to financial capital for a project (for example, the government may have structural debt issuance limitations, debt capacity limitations, or low credit ratings), which makes accessing private sector finance through a design/build/finance PPP procurement more attractive. In other instances, a governmental entity does not need to resort to private financing, but due to the technical risk or user-demand risk profile of the project may nonetheless desire to shift the potential financial burden of these risks to the private sector through an appropriate PPP structure. Weighing project risks and the potential to shift them to the private sector against the additional risk allocation and financial return requirements that the private sector will impose will play the most significant role in deciding whether to use a PPP structure.

Finally, within the political considerations box, users will find questions specific to the political arena in which their infrastructure project will be built, including whether the project spans multiple political jurisdictions; whether it includes or affects multiple politically active stakeholders; the anticipated degree of constituent pressure against new or increased taxes, rate increases, and new user fees and charges; the likelihood of constituent dissatisfaction from project completion delays; the ability of the jurisdiction to absorb material project cost overruns; and the likelihood of constituent fallout if the project fails to work as designed or constructed or from a technology failure.

Depending on the answers to those questions, the Decision Tree will guide users to a point where all those involved can make a more informed decision on the optimal method to implement an infrastructure project. The interactive nature of the Decision Tree allows users to move backward and forward through the questions so they can experiment with different scenarios. We also have included pop-up information boxes that users can click on for definitions and more in-depth discussion of specific topics.

The Urban Land Institute

By Phil Gildan, Laura O'Connell, Nancy Torres, and Brendan Chia

October 17, 2018

PHIL GILDAN, team lead, a 2017-2018 senior fellow at the Harvard Kennedy School of Government's Mossavar-Rahmani Center, is a shareholder at Greenberg Traurig. He has over 30 years' experience as a practicing infrastructure lawyer with experience with PPPs and public infrastructure procurement and construction. LAURA O'CONNELL is a master in public policy (MPP) candidate; NANCY TORRES is a joint MPP and Harvard Business School MBA candidate; and BRENDAN CHIA is an MPP candidate.

[State Fiscal Rankings: The Mercatus Center at George Mason University](#)

For the fifth and final year, a new study from the Mercatus Center at George Mason University ranks the 50 states according to their financial condition. Each edition has provided a snapshot of each state's fiscal health by providing information from audited state financial reports in an easily accessible format. In "Ranking the States by Fiscal Condition, 2018 Edition," Eileen Norcross and

Olivia Gonzalez calculate this year's rankings from each state's fiscal year 2016 reports and then apply trend analysis to reports for each year from 2006 until 2016.

The study measures how well states can meet short-term and long-term bills by examining their financial statements. Most states are in a stable condition, with the exception of the size of unfunded pension liabilities (a large portion of most state government obligations). Some states also have consistently low levels of cash, which indicate the potential for budget shortfalls during a recession.

A Multidimensional Approach to Fiscal Solvency

The study analyzes state finances according to five dimensions. These dimensions combine to produce an overall ranking of state fiscal solvency.

- *Cash solvency.* Does a state have enough cash on hand to cover its short-term bills?
- *Budget solvency.* Can a state cover its fiscal year spending with revenues, or does it have a budget short-fall?
- *Long-run solvency.* Can a state meet its long-term spending commitments? Will there be enough money to cushion it from economic shocks or other long-term fiscal risks?
- *Service-level solvency.* How large a percentage of personal income are taxes, revenue, and spending? How much "fiscal slack" does a state have to increase spending if citizens demand more services?
- *Trust fund solvency.* How much debt does a state have? How large are its unfunded pension and healthcare liabilities?

Top Five States

The top five most fiscally solvent states are Nebraska (#1), South Dakota (#2), Tennessee (#3), Florida (#4), and Oklahoma (#5).

Bottom Five States

The bottom five states in terms of fiscal solvency are Kentucky (#46), Massachusetts (#47), New Jersey (#48), Connecticut (#49), and Illinois (#50).

National Trends in Fiscal Health

- Comparing revenues to expenses, state budgets have not fallen to the lows they reached during the recession, but they also have not quite improved to prerecession levels.
- Long-term liabilities have, on average, increased over time.
- Long-term liabilities increased most significantly in fiscal year 2015, largely as a result of new Governmental Accounting Standards Board (GASB) rules that required states to report unfunded pension obligations on the balance sheet.
- Unfunded pension liabilities remain an ongoing problem for the states. The GASB reporting changes only more transparently reveal the magnitude of the problem.

Key State Findings

- *Consistent performers.* Some states have consistently performed poorly, such as Connecticut, Illinois, and New Jersey. They have experienced ongoing structural deficits, a growing reliance on debt to fund spending, underfunded pensions and other postemployment benefit liabilities, or some combination of these problems. States with low levels of debt and unfunded pension liabilities and strong short-term indicators include Nebraska, Tennessee, and Utah.
- *Fiscal implications of heavy reliance on oil tax revenue.* Alaska, North Dakota, and Wyoming rely

heavily on severance taxes on oil production as sources of revenue to finance government spending. These states experience volatility in their short-term solvency and dramatic swings in cash and revenue levels. In some cases this leads them to increase spending beyond a level that could be supported if the revenues were raised based on the income of residents.

- *Fiscal implications of major tax reform.* Indiana, Kansas, Michigan, North Carolina, Rhode Island, and Utah have each passed a variety of tax reforms during the time period this study analyzes. In the cases of Indiana and North Carolina, these reforms were accompanied by base-broadening or spending reforms that resulted in neutral or positive impacts on the states' financial positions. By contrast, Kansas's tax reform of 2012 cut rates but narrowed the tax base by including an income tax exemption for sole proprietorships. It also did not undertake spending reforms. This led to a steady decline in Kansas's budget solvency during the postreform years.

Conclusion

States face many fiscal problems, but these problems are not insurmountable. Studying how each state is performing with respect to a variety of fiscal indicators can help state policymakers address persistent issues and anticipate potential problems.

KEY MATERIALS

- [Download the Full Paper](#)
- [Download the Research Summary](#)
- [Download the 2016 Data](#)
- [Download the 2006-2016 Data](#)
- [Download the Map](#)

The Mercatus Center at George Mason University

by Eileen Norcross & Olivia Gonzalez

October 9, 2018

[The Impact of Dodd-Frank on True Interest Cost of Municipal Bonds: Evidence From California](#)

Abstract

The Dodd-Frank Act of 2010 amended the Securities Exchange Act of 1934 and introduced new registration requirements and regulatory standards applicable to municipal financial advisors. The reform is intended to address some of the problems observed with the conduct of some municipal advisors, including the issuance of financial advice without adequate training or qualifications, and to help municipal debt issuers to raise capital more efficiently. This article explores potential implications of the policy for municipal borrowers. After reviewing the main policy provisions and discussing theoretical outcomes, it empirically tests the null hypothesis of no policy effect on the cost of municipal borrowing in California. The results suggest a significant decrease in true interest cost after the reform. The policy effect is more pronounced on negotiated debt. Thus, the federal regulation of municipal financial intermediaries may have helped to improve the average quality of advice in the market and lower the cost of borrowing.

[Read the full text.](#) (Registration required.)

Wiley Online Library

by Mikhail Ivonchyk

First published: 26 September 2018

Mikhail Ivonchyk, PhD Candidate, is at the Department of Public Administration and Policy, School of Public and International Affairs, University of Georgia, 415 Baldwin Hall, 355 S. Jackson St., Athens, GA 30605. He can be reached at ivonchyk@uga.edu.

[BDA & Court Street Group Research Release A Muni Bond Primer.](#)

The BDA and CSG are proud to release this primer on municipal bond finance as BDA represents our member firms as a thought leader on infrastructure, the utilization of and benefits from the municipal bond market.

The Municipal Bond Market: Building America's Infrastructure, is a collaborative work that gives novices and professionals alike, the basic framework for how American infrastructure is financed, built, and utilized—thanks to the municipal bond market.

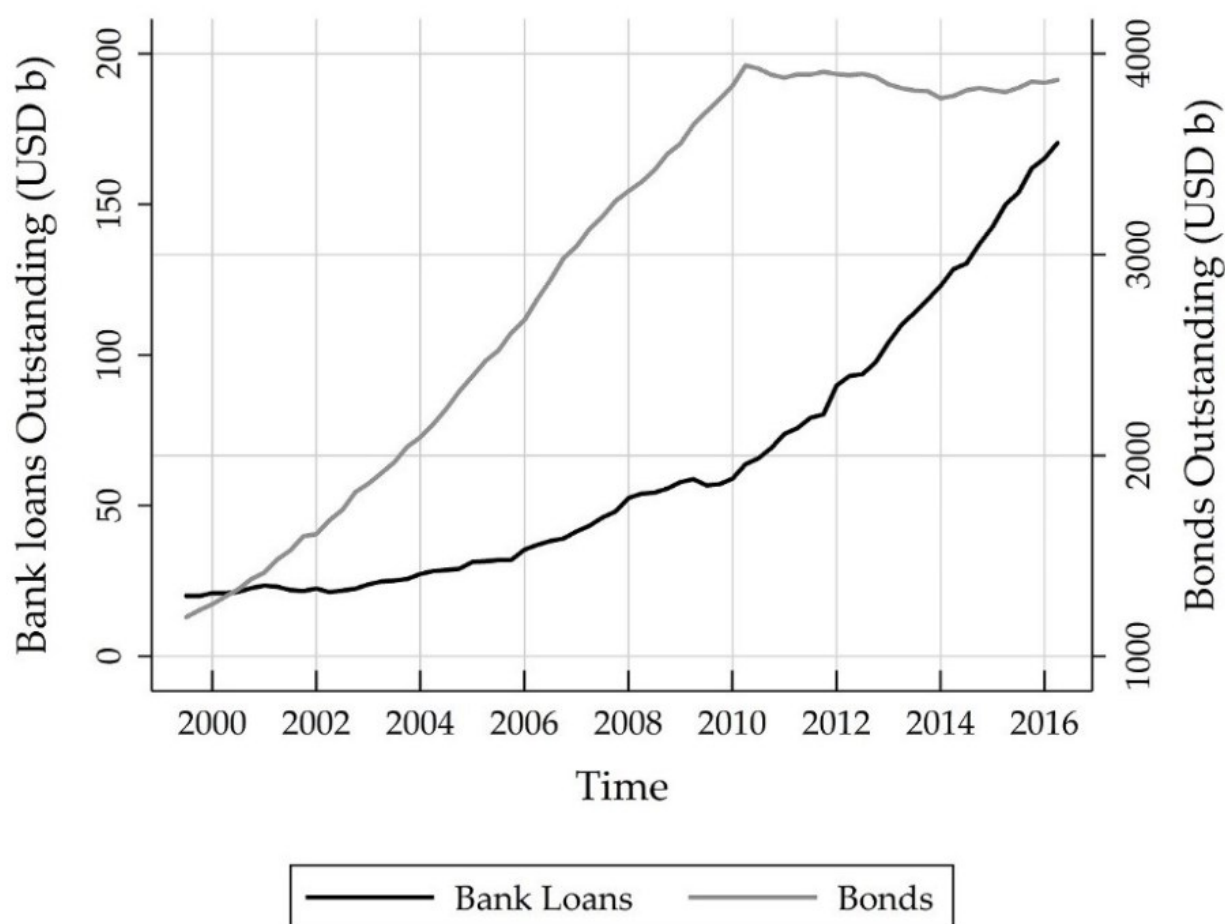
[Click here](#) to read the primer.

September 18, 2018

[The “Privatization” of Municipal Debt.](#)

Although state and local governments in the U.S. have historically been regarded as some of the most financially sound entities, the aftermath of the Great Recession has cast doubt on this notion. The financial crisis also led to the collapse of most bond insurance companies, leaving the vast majority of obligations of state and local governments uninsured. At the same time, unmet needs for infrastructure investments, the bulk of which are typically funded by state and local governments, have been growing and estimated to amount to approximately \$2 trillion in 2017.[1] In the presence of these funding shortfalls, municipal entities have rapidly increased their reliance on private bank loans. Specifically, state and local governments have increased their bank loan obligations from about \$30 billion before the financial crisis to over \$160 billion in late 2016 (see Figure 1).

Figure 1. Volumes of bank loans and municipal bonds outstanding over time



Yet empirical evidence on this trend has been nonexistent. No disclosure requirements exist for private debt claims of municipal governments, and very few municipal entities choose to disclose voluntarily.[2] Using confidential supervisory loan-level data on bank lending to municipal governments in the United States, Ivan Ivanov of Federal Reserve Board and Tom Zimmermann of University of Cologne study the municipal bank debt market. They first present key characteristics of the average bank loan contract to municipalities and discuss implications for debt seniority and potential claim dilution between private and public debt claims; then analyze banks' internal assessment of the credit worthiness of municipalities and draw comparisons with that of rating agencies. Lastly, they study how exogenous adverse income shocks affect the debt structure of municipalities. This analysis helps understand whether the trend towards private debt claims is likely to persist in an environment of eroding fiscal positions.

They show that most of bank lending to states and local governments is done via credit lines, terms loans, and to a lesser extent leases.[3] The majority of bank borrowing of counties, cities, and districts (both in terms of counts and funded amounts) is done via term loans. In contrast, states that have bank borrowing exhibit greater reliance on credit lines than local governments such as counties, cities, and districts. Additionally, municipal governments may have substantial additional ability to increase debt in a short time frame because of large unused revolving credit capacity.

The paper further demonstrates bank lending to state and local governments is heavily collateralized, has high contractual priority, and contains additional guarantees. For example, 60 percent of lines of credit and 80 percent of term loans are secured, with banks almost always having first-lien priority on the assets that secure the loans. Whenever a bank loan is unsecured, banks are

almost always senior in terms of priority. In addition, bank loan maturities are short: only 2-3 years for lines of credit and 7-8 years for term loans. Overall, given the high collateralization of bank loans combined with maturities that are likely to be substantially shorter than those of public bonds, state and local governments with outstanding bonds may dilute public bondholders when they issue new bank loans. While such bonds claim dilution through collateralization and shortening of debt maturities may be a way to maximize external finance proceeds given the realization of an adverse income shock,[4] it substantially limits the ability of a municipality to take on additional debt.

Read the full paper [here](#).

The Brookings Institute

by Ivan T. Ivanov and Tom Zimmermann

Wednesday, September 26, 2018

Editor's Note: A version of this paper was presented as part of the 7th annual Municipal Finance Conference, held July 16-17, 2018 at Brookings.

The authors did not receive financial support from any firm or person with a financial or political interest in this article. Neither is currently an officer, director, or board member of any organization with an interest in this article.

[Financing Dies in Darkness? The Impact of Newspaper Closures on Public Finance.](#)

Local newspapers in the United States have been steadily declining in recent years. Accompanying this change was a decline in statehouse reporters who play an important role in gathering information about local governments and reporting it to their readers. Related academic studies in the political economy space show that geographic areas with reduced local media coverage have less informed voters and lower voter turnouts, removing the incentives of local politicians to work hard on behalf of their constituencies.

Despite the growing academic research on the real effects of media coverage on finance outcomes, it still remains an open question whether shocks to media coverage affect these outcomes in the long run. If a negative coverage shock such as a newspaper closure leads to increased government inefficiencies and informational frictions, then potential municipal lenders will likely demand higher yields to compensate for these effects. On the other hand, if there is high degree of substitutability between the affected media outlet and alternative, unaffected outlets, then there should be no effect on local financial markets in the long run. This effect could even be positive if these alternative sources of news provide more accurate and timelier information to their readers.

Pengjie Gao of the University of Notre Dame and Chang Lee and Dermot Murphy of the University of Illinois at Chicago, empirically examine how shocks to local media coverage affect long-run public borrowing costs. The municipal bond market provides an ideal setting for their study because the individual bonds are largely bought and sold by local investors, providing a more direct link between local media shocks and securities prices. They use local newspaper closures as a proxy for local media shocks, as the closures effectively cause large, discrete changes in local media coverage. Their main finding is that newspaper closures have a significantly adverse impact on municipal borrowing costs in the long run. Specifically, following the three year period after a newspaper

closure, municipal bond offering yields increase by 5.5 basis points, while yields in the secondary market increase by 6.4 basis points; these results are significant at the 1% level. Further, these results are robust to a comparison of yields between affected and unaffected counties in the pre-closure period. The effect of newspaper closures on revenue bonds, which are backed by cash flows generated by specific projects and more subject to misappropriation, is even stronger, with offering and secondary yields increasing by 10.6 and 9.9 basis points. In dollar terms, an additional 10 basis points increases the cost of an average issue by about \$650 thousand.[1] Taken together, their evidence suggests that there is not a sufficient degree of substitutability between local newspapers and alternative information intermediaries for evaluating the quality of public projects and local governments.

Read the full paper [here](#).

The Brookings Institute

by Pengjie Gao, Chang Joo Lee, and Dermot Murphy

Monday, September 24, 2018

The authors did not receive financial support from any firm or person with a financial or political interest in this article. Neither is currently an officer, director, or board member of any organization with an interest in this article.

Editor's Note: A version of paper was presented at the 7th Municipal Finance Conference at The Brookings Institution on July 16-17, 2018.

Improving Tax Increment Financing (TIF) for Economic Development.

Economist David Merriman of the University of Illinois at Chicago reviews more than 30 individual studies in the most comprehensive assessment to date of tax increment financing (TIF), a popular economic development tool. The report finds that while TIF has the potential to draw investment into neglected places, it has not accomplished the goal of promoting economic development in most cases. First implemented in the 1950s, TIF funds economic development within a defined district by earmarking increases in future property tax revenues that result from increases in real estate values in the district. The tax revenue can be used for public infrastructure or to compensate private developers for their investments, but TIF is prone to several pitfalls: it often captures some revenues that would have been generated through normal appreciation in property values, it can be exploited by cities to obtain revenues that would otherwise go to overlying government entities such as school districts, and it can make cities' financial decisions less transparent by separating them from the normal budget process. The report recommends several ways that state and local policy makers can reform TIF practices going forward.

[Read the Full Paper.](#)

Lincoln Institute of Land Policy

by David Merriman

September 2018

Disaster Recovery Bond Financing: Considerations for Congress.

[Read the paper.](#)

National Association of Bond Lawyers

9/5/2018

SIFMA Research Quarterly, Second Quarter 2018

Long-term securities issuance totaled \$1.97 trillion in 2Q'18, an 8.4 percent increase quarter-over-quarter (q-o-q) from \$1.82 trillion in 1Q'18 and a 2.5 percent increase year-over-year (y-o-y) from \$1.92 trillion in 2Q'17.

Long-term public municipal issuance volume including private placements for 2Q'18 was \$99.3 billion, up 51.9 percent from \$65.4 billion in 1Q'18 and down 8.9 percent from \$109.0 billion in 2Q'17.

The U.S. Treasury issued \$662.5 billion in coupons, FRNs and TIPS in 2Q'18, up 14.2 percent from \$580.0 billion in the prior quarter and 16.1 percent above \$570.8 billion issued in 2Q'17.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and CMOs, totaled \$461.0 billion in the second quarter, a 2.8 percent increase from 1Q'18 (\$448.6 billion) and a 2.1 percent increase y-o-y (\$451.5 billion).

Corporate bond issuance totaled \$392.5 billion in 2Q'18, up 1.9 percent from \$385.0 billion issued in 1Q'18 but down 1.3 percent from 2Q'17's issuance of \$397.7 billion.

Long-term federal agency debt issuance was \$180.6 billion in the second quarter, up 3.1 percent from \$175.2 billion in 1Q'17 and up 6.4 percent from \$169.7 billion issued in 2Q'17.

Asset-backed securities issuance totaled \$114.2 billion in the second quarter, an increase of 14.2 percent q-o-q (\$100.1 billion) but a 33.1 percent decline y-o-y (\$170.6 billion).

Equity underwriting declined by 5.5 percent to \$60.6 billion in the second quarter from \$64.1 billion in 1Q'18 but increased 13.2 percent from \$53.5 billion issued in 2Q'17. Of the total, IPOs accounted for \$14.4 billion, down 11.0 percent from \$16.2 billion in 1Q'18 but up 62.1 percent from \$8.9 billion in 2Q'17.

[Read the Report.](#)

September 6, 2018

National League of Cities Releases Small Cell Guide for Local Government.

The equipment is popping up in urban environments across the country, and the NLC is trying to

educate local governments before 5G hits.

As small cell wireless equipment — those little cell service-spreading doohickeys attached to structures such as streetlights and utility poles — proliferates across the U.S., the National League of Cities (NLC) is looking to help local governments make decisions about how to allow it.

It's a move the Federal Communications Commission (FCC) has already undertaken, as it [drafts a model ordinance](#) for cities to adopt or build upon. The NLC saw some shortcomings in that effort, and decided to [publish its own](#).

"One important thing to keep in mind is that no national model is ever going to solve everybody's problems, and that was one of the issues with the [FCC] model from the outset," said Angelina Panettieri, a principal associate of technology and communications for NLC.

Toward that end, the ordinance leaves a lot of room for local governments to make considerations about what they want to do — for example, holding public hearings for every small cell installation or gathering input on the general concept and then setting up an administrative review process to cut down on the amount of time it takes to approve each project.

That was the approach that Raleigh, N.C., took.

"They actually engaged citizens through a more formal process ... they really gave residents the opportunity to weigh in on the look and feel and design of this new equipment," said Nicole DuPuis, a principal associate of urban innovation for NLC.

The organization also released a [guide](#) explaining the fundamentals of small cell technology and what it's there for.

"Our focus has actually been on the guide for most of the last year and change," Panettieri said. "We thought it was important that a nontechnical resource be available to local officials just to understand what small cell technology is and why it's important to their communities so they aren't completely caught off guard when [companies] come to them and want to build."

Small cells, which have a short range and are most often deployed in denser urban environments to serve high demand, are a part of the connectivity backbone cities are building out in anticipation of smart city-type technology like pedestrian-counting sensors, but telecommunications firms are looking at them in another way: preparation for 5G wireless.

"5G is going to use a higher portion of the spectrum that, because of the wavelength, is not going to be able to transmit very far," she said.

The equipment does face local opposition in a lot of places. One sticking point is design — especially in places with older architecture, modern equipment can look out of place. A [2018 study](#) by RVA Research, sponsored by the pro-broadband nonprofit Next Century Cities, found that the appearance of the equipment was the most common complaint about small cells.

The NLC guide includes a brief case study of how Boston worked with companies and community members to come to an agreement on how to help the equipment blend in more naturally with the cityscape.

Another is local concern about radio frequency radiation and whether it might increase cancer rates — though there doesn't appear to be much evidence that it does, scientists are still researching to more definitively answer questions. Furthermore, the FCC hasn't updated [its guidelines](#) on safe

levels of radio frequency radiation exposure since 1996.

“It’s reasonable for people to want to know that something close to street level is safe,” Panettieri said.

A lot of local governments might not have to worry much about small cell installations, since Panettieri said telecommunications companies have mostly targeted middle-sized and larger cities for the equipment.

Nonetheless, the number of deployments is likely to rise, with telecommunications firms [planning](#) to look more to small cells as they compete with each other to set up 5G networks.

Government Technology

by Ben Miller
Staff Writer

August 31, 2018

[Overpromising has Crippled Public Pensions. A 50-State Survey.](#)

Introduction

The real problem plaguing public pension funds nationwide has gone largely ignored. Most reporting usually focuses on the underfunding of state plans and blames the crises on a lack of taxpayer dollars.

But a Wirepoints analysis of 2003-2016 Pew Charitable Trust and other pension data found that it’s the uncontrolled growth in pension promises that’s actually wreaking havoc on state budgets and taxpayers alike.[1] Overpromising is the true cause of many state crises. Underfunding is often just a symptom of this underlying problem.

Wirepoints found that the growth in accrued liabilities has been extreme in many states, often growing two to three times faster than the pace of their economies.[2] It’s no wonder taxpayer contributions haven’t been able to keep up.

[Continue reading.](#)

Wirepoints

By Ted Dabrowski and John Klingner

July 19, 2018

[State Strategies for Maintaining a Balanced Budget.](#)

Case studies offer lessons on identifying and managing nonrecurring revenue

Many states ended 2017 flush with unexpected cash. Federal legislation that caps some tax deductions beginning in 2018 prompted many Americans to prepay their state and local taxes. While this surprise revenue was positive news for state budgets, several policymakers struck a cautious tone.

“This is not a windfall,” Robert Mujica, director of the New York State Division of the Budget, said in January 2018. He predicted that the bump in tax collections would be offset by a corresponding drop in receipts in the year ahead.

In fact, states have seen one-time revenue spikes like this before. In 2013, several of them recorded unexpected revenue boosts when many investors—anticipating an increase in federal capital gains taxes—took stock market profits before the change went into effect. Many states grappled with how to treat this influx of cash. While most of the spike in revenue came from annually collected sources like personal and corporate taxes, the nature of the increase meant some of the gains might be temporary.

Utah, for example, initially projected that individual income tax revenue in 2013 would grow by 7.8 percent. (The final numbers showed that growth was actually 16 percent.) State economists believed the higher tax revenue was temporary and suggested that policymakers treat 90 percent of it as a nonrecurring, or onetime, event. Taking the cue, lawmakers spent the unexpected revenue on short-term priorities such as the construction of a courthouse for juvenile hearings. And the next fiscal year, the state planned conservatively, accurately anticipating a substantial decline in tax collections.

Not all states planned—or fared—as well. Despite cautious forecasts, seven states missed their April 2014 individual income tax revenue estimates by more than 10 percent. In Kansas, revenue from this source had beaten projections in 2013 after the state cut its taxes, causing lawmakers to be optimistic about future revenue. However, revenue came in 28 percent under the forecast, leading the state to draw down reserves that it has yet to rebuild.

Common Sources of Nonrecurring State Revenue

Examples of revenue that may be one-time in nature

- Extraordinary growth in tax collections (especially from volatile sources)
- General fund ending balance
- Cash shift from other state accountants (such as rainy day funds)
- Large legal settlements
- Temporary state tax increases
- One-time transfers from the federal government

These events underscore the importance of identifying and managing nonrecurring revenue. Failure to do so does not affect only one year’s budget; it can often create or perpetuate a fiscal imbalance that lasts several years. Conversely, when states regularly allocate nonrecurring revenue to one-time priorities, they can mitigate potential budget problems before they form.

While budget challenges from nonrecurring revenue exist in every state, there is no universal practice for how to manage or define this revenue. Economists, budget officers, and policymakers in some states formally distinguish it from revenue that is expected to be collected in future years, while others rely on informal and ad hoc ways to track the revenue.

To identify and evaluate state approaches to detecting and managing nonrecurring revenue, The

Pew Charitable Trusts examined practices in all 50 states—focusing on policies codified in state statutes and constitutions.

This report includes case studies that highlight the range of strategies that states use, with the goal of informing policymakers of promising practices. The featured strategies include:

Techniques states use to identify nonrecurring revenue:

- Case study 1. Alabama: Defining certain revenue sources as recurring or nonrecurring.
- Case study 2. Tennessee: Separating a volatile tax source into recurring and nonrecurring parts.
- Case study 3. Utah: Separating all major tax sources into recurring and nonrecurring parts.

Techniques states use to manage nonrecurring revenue:

- Case study 4. Louisiana: Limiting nonrecurring revenue to specific appropriations.
- Case study 5. Florida: Limiting the amount of nonrecurring revenue that pays for ongoing costs.
- Case study 6. Washington: Analyzing whether expected future spending is balanced by recurring revenue.

Based on this research, Pew recommends that states consider the following when deciding how to identify and manage nonrecurring revenue:

- Develop definitions for this revenue and regularly report on its ability to cover ongoing costs.
- Treat abnormal growth in annually collected taxes as nonrecurring revenue.
- Create guidance to ensure that nonrecurring revenue is used on one-time spending commitments.

[Download State Strategies for Maintaining a Balanced Budget.](#)

The Pew Charitable Trusts

June 14, 2018

[2018 State of the Cities Report from NLC: Economic Growth, Infrastructure Top Issues for American Mayors.](#)

WASHINGTON - May 30, 2018 - The National League of Cities (NLC) released its [2018 State of the Cities](#) report today at a national morning press event with city leaders and policy experts. The report shows that economic development, infrastructure, budgets, housing and public safety continue to top the list of agenda priorities for U.S. mayors, as well as revealing that opioids, broadband access and climate change have emerged as new and growing concerns.

Now in its fifth year, NLC's annual report analyzes key issues and trends in the state of the city (SOTC) speeches mayors deliver each year to outline their top priorities. This year's report examined 160 mayoral speeches delivered between January and April 2018 and includes cities across population sizes and geographic regions.

[Continue reading.](#)

National League of Cities

May 30, 2018

[Assessing Exposure to Climate Risk in U.S. Municipalities.](#)

May 22, 2018 - 427 REPORT. Cities and counties are bearing the costs of the sixteen billion-dollar disasters in the United States in 2017, raising concerns over the resilience of municipalities to the impacts of climate change and associated financial shocks. Credit rating agencies are increasingly integrating physical climate risk into their municipal rating criteria; however, they lack concrete metrics that compare and assess which municipalities are exposed to climate impacts. Four Twenty Seven's new local climate risk scores provide comparable, forward-looking data to fill this gap. This report discusses our approach to measuring exposure to climate hazards and highlights cities and counties most exposed to the impacts of climate change.

[Continue reading.](#)

By Nik Steinberg

May 22, 2018

[Transparency: A Means to Improving Citizen Trust in Government](#)

Author: Shayne Kavanagh Vincent Reitano

Year: 2018

Citizens' trust in government is vital to the functioning of a democratic system. Transparency is one way in which governments can build trust. However, "transparency" does not mean just making financial data available to those who have an interest in it. In fact, psychological research suggests that people do not rely solely or even primarily on logic and reason to form judgements, such as trust. Hence, governments must go beyond open and accessible data strategies in order to build trust. There are costs associated with transparency. These range from time and money spent on transparency initiatives to less obvious concerns about unintended consequences, like misunderstandings about what data means and giving too much access to special interest groups. Thus, the future of government may not necessarily lie in more transparency, but rather in smarter transparency that:

- Shows that the values government operates by are the same core values held by its citizens;
- Demonstrates that government officials care about citizens' well-being and acting fairly; and
- Provides information on government performance with enough context for citizens to evaluate the quality of government's work.

[Download](#)

Government Finance Officers of America

[NFMA Submits Amicus Brief Concerning Puerto Rico Highway Revenue Bond Ruling by U.S. District Court.](#)

The National Federation of Municipal Analysts announced today that it has filed an amicus curiae brief with the United States Court of Appeals for the First Circuit in support of the appeal filed by Assured Guaranty, Financial Guaranty Insurance Company and National Public Financial Guarantee Corporation of a decision of the United District Court for the District of Puerto Rico (the “District Court”) involving Puerto Rico Highway and Transportation Authority bonds.

[Click here](#) to read the press release.

[Click here](#) to read the amicus brief.

[Report: Facing \\$1 Trillion in Water Infrastructure Costs, States Aren’t Leveraging Federal Dollars to Weather Coming Storms.](#)

With water infrastructure costs expected to exceed \$1 trillion, a new report shows that only a few states are adequately leveraging federal dollars to shrink the infrastructure funding gap. The new report released today by the Natural Resources Defense Council (NRDC), [“Going Back to the Well”](#) highlights cutting-edge financing strategies for states to better fund the water infrastructure serving millions of Americans.

“Despite the looming funding gap, states aren’t thinking about how to meet that future need and are essentially funding water infrastructure the way you or I would manage our checking account,” said Rob Moore, Director of NRDC’s Water & Climate Team. “Each year, they just add up how much EPA gives them, plus a small state match, and that’s the amount of assistance they plan provide to help communities fix their drinking water and sewer systems. That’s not going to cut it.”

“Using more creative financial tools, like issuing bonds and using their SRFs to issue loan guarantees could greatly expand infrastructure funding. Those increased funds could determine which states are prepared to weather the coming storms,” said Moore.

[Continue reading.](#)

May 15, 2018

[MSRB Report: Municipal Bond ETFs’ Impact on Municipal Market Liquidity.](#)

[Read the MSRB Report.](#)

[U.S. Releases Puerto Rico Debt Crisis Report, Offers Solutions.](#)

SAN JUAN, Puerto Rico (AP) — A [U.S. government report](#) Wednesday detailed how Puerto Rico accumulated some \$70 billion in public debt and suggested ways federal officials could help avoid a

repeat of the crisis, such as removing a triple-tax exemption on the island's bonds and requiring local investment companies to disclose risks associated with those bonds.

The report comes nearly two years after Congress enacted a law to help Puerto Rico restructure a portion of its debt and establish a federal control board to oversee the island's finances amid what is now a more than decade-old recession. It also allowed the Government Accountability Office to examine what led to Puerto Rico's crisis and actions the U.S. government could take.

"From highlighting the stifling debt, to identifying the systemic financial malpractice of the Puerto Rico government over the past half century, the GAO report reiterates why Congress passed (the law) two years ago," said U.S. Rep. Rob Bishop, chairman of a committee that has jurisdiction over Puerto Rico affairs.

The report found that the island's public finance problems are partly a result of government officials who overestimated revenue, overspent, did not fully address public pension funding shortfalls and borrowed money to balance budgets.

It said the government overestimated revenue in eight of the 13 years analyzed, by as much as 19 percent in one year. As a result, this allowed Puerto Rico's legislature to increase appropriations to agencies that in turn overspent an average of nearly \$460 million annually in nine of the 13 years.

The report said Puerto Rico's Treasury Department was not always aware of this practice because government agencies used a variety of accounting systems that prevented it from tracking those expenses.

Puerto Rico also made agreements with certain corporations to reduce their tax rates but then did not maintain an inventory on those details, preventing treasury officials from taking them into account when estimating revenues, the report said.

In addition to the recession's impact, the island's economy has been further weakened by a loss of population, the high cost of importing goods and energy and "burdensome" regulations and permitting processes for new businesses, the report said.

The GAO reviewed 20 of Puerto Rico's largest bond issuances over nearly two decades and found that 16 were issued solely to repay or refinance debt and fund operations.

"States rarely issue debt to fund operations, and many states prohibit this practice," the report stated.

As the crisis dragged on, Puerto Rico was still able to borrow money because its bonds were triple tax exempted and featured investment grade ratings, in part because they offered bankruptcy protection. During that period, it took Puerto Rico nearly twice the amount of time than average to release its audited financial statements.

"Untimely financial information made it difficult for ... investors to assess Puerto Rico's financial condition, which may have resulted in (them) not being able to fully take the investment risks into account," the report said.

Puerto Rico still has not released audited statements for fiscal years 2015, 2016 and 2017.

The GAO suggested the Securities and Exchange Commission could be allowed to require timely disclosure of those statements so investors can make informed decisions. If such a measure were already in place, it could have precluded Puerto Rico from issuing a \$3.5 billion general obligation

bond four years ago, the report said.

However, the GAO made no formal recommendations and it noted that Puerto Rico's government provided no information on potential progress made on many of the factors identified in the report.

The Associated Press

By Danica Coto

May 9, 2018

[A Critical Reflection on Social Impact Bonds.](#)

Far from being a win-win financial instrument, SIBs come with significant technical burdens and exemplify an ideological shift in welfare service provision.

At first glance, social impact bonds (SIBs) appear to be an ideology-free response to a range of social problems. As public resources are not always made available to adequately fund public and social services, SIBs leverage private investment to finance such services so that providers do not have to front the cost of delivery. Investors are rewarded if providers meet agreed-upon outcomes but lose their investment if providers do not meet those outcomes. On the face of it, SIBs might seem like a win-win for everyone involved.

So it makes some sense that SIBs have become so popular. Since their introduction in 2010, 32 SIBs have been set up thus far in the United Kingdom, addressing diverse policy areas such as homelessness, mental health services, education, and unemployment. The UK Government Cabinet Office has established a Centre for Social Impact Bonds. The government also allocated more than \$28 million of public funding to a Social Outcomes Fund in 2012 for the development of SIBs, and augmented this by a further \$113.4 million from the UK Government's Life Chances Fund in 2016—significant amounts of money by any measure. The UK's Minister for Civil Society has said that SIBs will revolutionize the third sector and social service funding, and that a SIBs market in Britain could be worth \$1.4 billion by 2020. Meanwhile, there are at least 10 SIBs operating in the United States and 19 more across 14 other countries, with Goldman Sachs also investing in the model. The development community has also adapted the SIB model in service of so-called development impact bonds (DIBs), primarily for use in the global south.

The ongoing hype around SIBs, their seemingly unstoppable proliferation worldwide, and the significant amounts of money investors are putting into them would suggest that they are widely regarded as the future of impact investing. However, we contend that such uncritical enthusiasm for the SIB model is a worrying trend. There are significant technical challenges to overcome in setting up and operating SIBs, which advocates insufficiently acknowledge. More substantively, however, SIBs fundamentally change the nature of public and social services, effectively reducing citizens to commodities.

[Continue reading.](#)

Stanford Social Innovation Review

By Michael J. Roy, Neil McHugh, & Stephen Sinclair

May 1, 2018

[Amicus Brief: Ambac Assurance Corp. v. Countrywide Home Loans](#)

Court:

New York Court of Appeals

Amicus Issue:

Whether a financial guaranty insurer asserting common-law contract and fraud claims is required to prove all of the elements of these claims to obtain relief, including justifiable reliance and causation.

Counsel of Record:

Orrick, Herrington & Sutcliffe LLP

Richard A. Jacobsen

Paul F. Rugani

Daniel W. Robertson

[Read the Brief.](#)

[CDFA Impact Investing White Paper Series: Small Business Development & Impact Investing.](#)

[Read the CDFA White Paper.](#)

[Examining the Local Value of Economic Development Incentives: Evidence From Four US Cities.](#)

Every year local and state governments in the United States expend tens of billions of dollars on economic development incentives. Under intense pressure to deliver economic opportunity, policymakers utilize incentives to encourage private sector firms to create jobs, invest in communities, and strengthen local industries. Drawing on a detailed literature review and a unique analysis of economic development transactions in four U.S. cities (**Cincinnati**, **Indianapolis**, **Salt Lake County**, and **San Diego**), this report advances a framework for inclusive economic development to help leaders analyze and evolve their incentive policies.

[Executive Summary](#)

[Full Report](#)

The Brookings Institute

by Joseph Parilla and Sifan Liu

March, 2018

Improving Public Decisionmaking: Local Governments and Data Intermediaries.

Abstract

Local governments should engage with data intermediary organizations, such as the members of the National Neighborhood Indicators Partnership, to more effectively identify priority issues, find new allies, and devise data-driven policies and programs. In addition to their topical, analytic, and community engagement expertise, these organizations bring an understanding of local context, a reputation for impartial analysis, and a set of relationships that spans sectors. Their services build local capacity, including within governments, to use data for better decisionmaking. All local governments should join with area data intermediaries to raise the whole community's ability to regularly share and use data to improve decisionmaking, both inside and outside of government.

[Download PDF.](#)

The Urban Institute

Kathryn L.S. Pettit and G. Thomas Kingsley

March 9, 2018

In addition to this overview brief, three case studies for Baltimore, Columbus, and Oakland demonstrate the range of ways that data intermediaries and their services benefit city and county governments. To read the full series, [click here](#).

MSRB Publishes Annual Fact Book of Municipal Securities Market Data.

Washington, DC - Trading activity in the \$3.8 trillion municipal securities market held relatively steady last year, according to the new Fact Book published annually by the Municipal Securities Rulemaking Board (MSRB). The par amount of municipal securities traded in 2017 declined five percent to \$3 trillion and the number of trades rose six percent to 9.9 million from the previous year.

"Secondary market trading in municipal securities remained steady during an eventful year for the market," said MSRB Director of Research Marcelo Vieira. "The policy discussions surrounding tax reform and infrastructure finance that drove municipal issuance at the end of the year registered only slightly in year-end secondary market trading data."

The MSRB's annual Fact Book provides comprehensive and historical statistics on municipal market trading patterns, primary market and continuing disclosures among other data, and serves as a resource for analysts, policymakers and others interested in disclosure and trading trends. The 2017 Fact Book contains municipal securities data for the last five years.

One of the highlights in terms of historical trading activity is in the education sector, which has seen continued growth in par amount traded over the last three years. Already the most active sector in

the municipal market, trading in bonds issued to finance education-related projects has increased 42 percent since 2014 to a total of \$1.56 billion in 2017. Increased trading activity in the education sector has contributed to a rise in the total par amount traded of fixed rate securities, which is up 15 percent since 2014.

All data in the Fact Book are based on information submitted to the MSRB by municipal securities dealers, issuers and those acting on their behalf. Some of the data in the Fact Book can be accessed digitally on the MSRB's Electronic Municipal Market Access (EMMA®) website, which allows users to view trading and new issuance statistics for different date ranges, types of trades and securities. Daily and historical summaries of trade data based on security type, size, sector, maturity, source of repayment and coupon type are housed in EMMA's Market Statistics section.

The MSRB promotes market transparency and access to real-time, municipal market bond information by collecting and publicly disseminating information through EMMA and other transparency systems.

[Read the report.](#)

Date: February 21, 2018

Contact: Jennifer A. Galloway, Chief Communications Officer
202-838-1500
jgalloway@msrb.org

[NFMA Municipal Analysts Bulletin.](#)

The NFMA's newsletter, the **Municipal Analysts Bulletin, Volume 28, Number 1**, is posted. [Click here](#) to read reports from officers, committee chairs and societies.

See: GASB/GASAC PROJECT & RESOURCE UPDATE beginning on Page 8.

[Review: Building 'The Source' of America's Cash Flows and Liquid Assets.](#)

Canals, dams and river projects—given the capital they require—have altered the course of public debt.

'Why is it,' Martin Doyle asks, "that sewers are often at the cutting edge in finance?" The question isn't meant as a slur on the financial industry but as testimony to the oversized but underrated role that waterworks have played in the economic annals of the United States. Throughout history, Mr. Doyle argues, our penchant for big-ticket water projects—canals, dams, waste-treatment plants, the wholesale engineering of rivers—has altered the course of public finance and even shifted the balance of power among federal, state and local governments. Instead of "The Source," his book might have been called "Water and Money."

Since colonial times we have bent rivers to our own ends. Originally we harnessed them to power gristmills, whose crucial role and monopolistic status earned them the label of "America's first public utilities," complete with government regulation of the fees that millers could charge. In the

early 19th century, entrepreneurs began to extend the reach of rivers with canals and thus ease the movement of goods and people to and from the East Coast. The canal companies were among America's earliest private corporations, and their massive enterprises became the first great public works.

The legendary Erie Canal proved spectacularly lucrative, operating at a profit even before its completion in 1825 and helping to position New York state as a commercial powerhouse. Other canals, scattered from New Hampshire to Virginia to Indiana, hoped to follow suit but had only limited success. When private capital dried up, Mr. Doyle tells us, state governments floated bonds to prop up the too-big-to-fail projects until, by the late 1830s, 86% of all public debt was owed by the states, with the lion's share—more than \$100 million—tied up in canals. (Federal debt at the time amounted to just 1.5% of the total.) When the country was plunged into the Panic of 1837, some states were forced into default, only deepening the economic misery.

In the late 1800s, as cities began to install water mains and sewer lines, the once-burned state governments refused to pony up, and cities had no choice but to assume the debt themselves. By the first years of the 20th century waterworks accounted for most municipal indebtedness, and by the 1940s the cities had replaced the states as the leading public debtors, issuing more than 70% of all government bonds. Local property taxes, meanwhile, swelled to 42% of total government revenues. Throughout U.S. history, Mr. Doyle writes, "paying for sewers has resulted in tectonic shifts in the political and financial structures."

THE SOURCE

By Martin Doyle

Norton, 349 pages, \$26.95

Another such shift would come during the Great Depression. With local governments on the verge of financial collapse, Washington began sponsoring infrastructure projects, including waterworks (whose ambitious scale made them ideal for absorbing labor), and before long the federal government had replaced the cities as the primary carrier of public debt. For the first time, income taxes (enabled by the 16th Amendment, ratified in 1913), and not property taxes, made up the largest part of all taxes collected. But a portion of what flowed to Washington eventually returned to its source, as the federal government redistributed part of the funds to cities and states. By the late 1970s, federal grants accounted for almost a third of state and local government revenues.

Washington also paid to scrub sewage and industrial pollution from the nation's rivers. But with the funds came new regulations, culminating in the Clean Water Act of 1972, which introduced federal standards for water quality. A decade later, the Reagan Revolution stanching the tide of federal aid to the cities. But the regulations remained, and now local governments had to shoulder more of the expense of treatment plants.

Pressed to maximize their limited capital, some water boards, as Mr. Doyle shows, made Faustian investments in interest-rate swaps, auction-rate securities and other high-risk instruments, until by 2005 more than a quarter of all municipal debt was locked in such ventures. When the crash came two years later, more than a few local governments found themselves in bankruptcy, just as the overextended states had been during the Panic of 1837.

While tracing water's central, shifting role in public finance, Mr. Doyle plumbs such subjects as the transformation of the Mississippi and other major rivers into "highly engineered, optimized hydraulic machines"; the moral hazards created by federal flood insurance, which encourages development in high-risk areas; the restoration of rivers through a kind of cap-and-trade system known as stream credits; and the Western water wars, a fierce, zero-sum game that pits environmentalists against

farmers and Native Americans and raises complex issues of property rights and sovereignty.

It is a story more tortuous than the Mississippi itself, but Mr. Doyle, a professor of river studies at Duke, tells it well. His writing, which tacks effortlessly from economics to history to science, is clear and absorbing, whether he is describing intricate credit schemes or the channelizing of rivers. Also welcome are the occasional field trips, including an excursion on a Mississippi towboat and a surprisingly engrossing tour of a waste-treatment plant.

On technical subjects, Mr. Doyle helpfully strips his explanations to the easily grasped essentials. But when he writes on history, this approach serves him less well. In the interest of providing a compelling narrative and advancing his argument, he sometimes falls into overstatement, as when he claims that “the whole economic history of the United States is the saga of negotiating the fiscal roles and responsibilities of the different levels of government in providing the most basic of services for their citizens—the water supply and sewer systems.” Even so, “The Source” is an original and thought-provoking exploration of the sinuous course that water has carved through our economic and political landscape.

The Wall Street Journal

By Gerard Helferich

Feb. 9, 2018 4:37 p.m. ET

—Mr. Helferich’s most recent book is “*An Unlikely Trust: Theodore Roosevelt, J.P. Morgan, and the Improbable Partnership That Remade American Business.*”

SIFMA U.S. Municipal Issuance Report.

Monthly, quarterly or annual municipal bond issuance volumes and breakdowns for the U.S. municipal market. Volumes broken out by GO/Revenue, coupon type, callable/noncallable, new financing/refunding, and average maturity.

[Read the Report.](#)

January 2, 2018

SIFMA U.S. Municipal Securities Holders Report.

Quarterly or annual breakdowns of municipal outstanding by bond holder type.

[Read the Report.](#)

February 2, 2018

Bond Dealers of America: 2017 Year in Review

[Read the BDA Report.](#)

Tax Reform Moves to the States: State Revenue Implications and Reform Opportunities Following Federal Tax Reform.

Key Findings

- States incorporate provisions of the federal tax codes into their own codes in varying degrees, meaning that federal tax reform has implications for state revenue beyond any broader economic effects of tax reform.
- Because the base-broadening provisions of the new federal tax law often flow through to states, while the corresponding rate reductions do not, most states will experience a revenue increase. The vast majority of filers will receive a tax cut at the federal level, but they could easily see a state tax increase unless states act to prevent one.
- Eighteen states and the District Columbia have “rolling” conformity with the Internal Revenue Code, meaning that they will conform to relevant provisions of the new federal law automatically, while nineteen must update their fixed-date conformity statutes to adopt the new provisions. The remaining states only conform selectively.
- The largest revenue increases will be in states which conform to the now-repealed federal exemption, either directly or by linking their own personal exemptions to the number of exemptions claimed at the federal level. States which conform to both the standard deduction and the personal exemption will also experience a revenue increase.
- Six states will incorporate the new 20 percent deduction for pass-through business income unless they decouple from the provision or change their income starting point from federal taxable income to federal adjusted gross income.
- Unless they act, most states will not conform to an important pro-growth element of federal tax reform, the provision providing for immediate expensing of investments in machinery and equipment. The additional revenue from base broadening elsewhere may provide an opportunity to conform to this provision.
- States which include Subpart F income, a component of income for multinational businesses, in their base may receive a repatriation windfall, but should avoid building this one-time revenue into their budget baseline.
- States anticipating additional revenue should view this as an opportunity to make their tax codes more competitive. In the past, federal tax reform has initiated a round of state tax reform as well.
- State fiscal offices have an obligation to provide critical revenue estimate information to legislators during the 2018 legislative sessions.

[Continue reading.](#)

Tax Foundation

January 31, 2017

Black & Veatch: 2018 Smart Cities & Utilities Report.

Black & Veatch's just-released **2018 Strategic Directions: Smart Cities & Utilities Report** explores the current landscape of smart city efforts, as 2017 marked an inflection point for initiatives around the world. The report finds that Big Data's potential to improve community quality of life while making critical human infrastructure more efficient and sustainable is overcoming lingering fears about costs. Bold advances in data analytics, electric transportation and next-generation communications systems are propelling smart city development, while creative financing strategies challenge old notions about massive upfront investments.

[Read the Report.](#)

Localities Will Deliver the Next Wave of Transportation Investment.

INTRODUCTION

There is a growing consensus that the United States should boost investment in transportation infrastructure, but simply throwing more money at projects overlooks a crucial trend: the United States is moving into an era where more of the agenda setting and funding responsibilities are falling to local governments.

This is a natural evolution. Cities, counties, and regional governments have long had major investment responsibilities within the national transportation system: they maintain the most roadway mileage in the country, they operate most of the country's transit systems, and they own and operate most sea ports and airports. But local governments are also especially attuned to local needs. Their ability to plan and design infrastructure upgrades in light of their long-term economic development priorities have built support for some of the country's most ambitious transportation investments in recent memory, from committing over \$100 billion in Los Angeles county to flexible bond issuances in Denver and Atlanta.

Yet not every locality starts from a position of strength when planning and paying for transportation improvements.[1] Fiscal conditions are far from ideal in many places, especially in those cities that still have not seen their General Fund revenues return to levels seen before the Great Recession.[2] Meanwhile, a 2016 national survey of city finance officers found infrastructure needs are a top source of fiscal burden.[3] Combined with changing demands to how people travel and how businesses and people purchase goods, many places face deep uncertainties on how to both maintain today's assets and find resources to make sensible investments for the future.

[Continue reading.](#)

The Brookings Institute

Adie Tomer and Joseph Kane

January, 2018

NFMA Releases Recommended Best Practices in Disclosure for Local General Obligation Debt Disclosure.

[Recommended Best Practices in Disclosure for Local General Obligation Debt Disclosure.](#)

NFMA Releases White Paper on General Obligation Bond Payment Protections: Statutory Liens and Related Disclosure.

[White Paper on General Obligation Bond Payment Protections: Statutory Liens and Related Disclosure.](#)

NFMA Releases Recommended Best Practices in Disclosure for Water and Sewer Bonds.

[Recommended Best Practices in Disclosure for Water and Sewer Bonds.](#)

NABL: The Bond Lawyer - Fall 2017

The Fall 2017 issue of The Bond Lawyer is now available. [Click here](#) to download the document.

Articles include:

Notes from the Editor (on “Bond”)

Fredric A. (Rick) Weber

Norton Rose Fulbright US LLP, Houston, Texas

Federal Securities Law

Paul S. Maco

Bracewell LLP, Washington, D.C.

Federal Tax Law: Tax Microphone

Michael G. Bailey

Foley & Lardner LLP, Chicago, Illinois

S&P Global Ratings' U.S. Public Finance 2017 Pension And OPEB Research Recap.

S&P Global Ratings’ U.S. public finance team continues to highlight and identify key pension and other postemployment benefit (OPEB) trends and liability drivers that could inform credit risk. Below is a list of research reports on these topics published in 2017 in case you missed them.

[Continue Reading](#)

Dec. 7, 2017

[Risky Choices: Simulating Public Pension funding Stress with Realistic Shocks.](#)

Though they often fly under the radar in public discourse, state and local pension plans are among the most important institutions in the modern economy. They provide retirement benefits for nearly 10 million beneficiaries; have nearly 20 million members, and manage nearly \$4 trillion in assets.[1] The huge scale of these plans means that seemingly obscure assumptions on investment returns and discount rates have enormous consequences.

In recent years, the risky funding system underlying these plans has come under fire in academic circles. For example, Brown and Wilcox (2009) and Rauh and Novy-Marx (2014) argue that the discount rates used by public plans to account for future liabilities are generally too high. These papers note that these liabilities, when discounted at rates closer to those offered by municipal bonds, are significantly larger and require substantially more upfront funding. Administrators of public plans have pushed back against this critique, arguing that commonly used discount rates better reflect the true historical experience and asset requirements facing plans (NASRA 2010).

[Download the full paper](#)

The Brookings Institute

by James Farrell and Daniel Shoag

November 30, 2017

James Farrell

Associate Professor of Finance and Economics - Florida Southern College

Daniel Shoag

Associate Professor - Harvard Kennedy School and Case Western Reserve University

[GASB Issues Exposure Draft: Implementation Guidance Update.](#)

GASB Issues Exposure Draft, *Implementation Guide No. 201Y-X*, Implementation Guidance Update—201Y.

[Read the Exposure Draft.](#)

[Now Available: 7th Edition, Federal Securities Laws of Municipal Bonds Deskbook.](#)

The *Federal Securities Laws of Municipal Bonds Deskbook* is an essential guide for all bond lawyers, regulatory staff, in-house counsel for investment firms and banks, state and local government

attorneys, and other securities professionals. This comprehensive publication delivers all key materials relating to the federal securities laws of municipal bonds in a portable deskbook. The new 7th Edition includes an updated summary of the MSRB rules and the most recent SEC enforcement decisions, SEC reports, SEC no-action letters, SEC final releases, and other relevant reports and guidelines.

[Purchase Deskbook Here](#)

[SIFMA U.S. Municipal Credit Report, Third Quarter 2017](#)

The [municipal bond credit report](#) is a quarterly report on the trends and statistics of U.S. municipal bond market, both taxable and tax-exempt. Issuance volumes, outstanding, credit spreads, highlights and commentary are included.

Summary

According to Thomson Reuters, long-term public municipal issuance volume totaled \$84.6 billion in the third quarter of 2017, a decline of 16.0 percent from the prior quarter (\$100.7 billion) and a decline of 22.0 percent year-over-year (y-o-y) (\$108.7 billion). As of the end of September, year-to-date municipal issuance totaled \$271.8 billion and was generally in line with the 10-year average of \$271.6 billion for the first three quarters of the year. Including private placements (\$3.1 billion), long-term municipal issuance for 3Q'17 was \$87.6 billion.

Tax-exempt issuance totaled \$75.2 billion in 3Q'17, a decline of 14.0 percent q-o-q and a decline of 23.7 percent y-o-y; year to date, tax-exempt issuance was \$239.1 billion. Taxable issuance totaled \$5.9 billion in 3Q'17, a decline of 37.3 percent q-o-q and 25.1 percent y-o-y; year to date, taxable issuance totaled \$22.7 billion. AMT issuance was \$3.5 billion in 3Q'17, a decline of 7.9 percent q-o-q but an increase of 49.4 percent y-o-y; year to date, AMT volumes were \$10.0 billion year to date ending September.

By use of proceeds, general purpose led issuance totals in 3Q'17 (\$20.2 billion), followed by primary & secondary education (\$15.5 billion) and higher education (\$7.8 billion). Refunding volumes rose slightly to comprise 44.1 percent of issuance in 3Q'17 from 41.4 percent in the prior quarter but declined from 52.4 percent from the third quarter of 2016.

[Despite Slow Revenue Growth, State Spending Is Picking Up.](#)

The increase in annual spending is largely due to rising health-care costs and increased investment in transportation.

After an anemic 2016, state spending is up this year thanks in large part to rising Medicaid costs and increased investment in transportation.

States collectively spent nearly \$2 trillion in fiscal 2017, an increase of 5.2 percent, according to a [newly released report](#) from the National Association of State Budget Officers (NASBO). The growth rate is more than [double that of fiscal 2016](#), which saw state budgets struggle to adapt to lower-than-expected revenues.

Illinois having its first signed budget in two years played a small role — about .6 percent — in this year's uptick. The state spent an estimated \$67.2 billion in fiscal 2017, a \$12 billion increase over the prior year and a figure more in line with the state's historic spending patterns.

All eight geographic regions saw at least a slight rise in total state spending, with the strongest growth reported in the West and the Southeast.

Whereas recent years' spending increases have been largely driven by aid from the federal government, 2017 saw states upping the ante on their own. State spending from their own funds increased by 4.9 percent. That's significant growth compared with 1.8 percent last year.

All this despite the fact that the revenue picture has seemingly improved very little. For the second straight year, corporate income tax revenue saw a nearly 6 percent decline, and growth in income and sales tax collections hovered below 3 percent.

Given the poor revenue picture and the increase in spending, it's likely that states employed one-time measures to close [budget gaps in 2017](#), says NASBO Executive Director John Hicks. Still, he adds, it's notable that states invested more this year in nearly every major category.

Medicaid spending played a big role in this year's numbers as 2017 marked the first time that the 31 states which expanded Medicaid under the Affordable Care Act began to pay a portion (5 percent) of it.

Both higher education and transportation also saw strong spending growth. In fact, for three out of the past four years, states have increased higher education spending by at least 5 percent. Colleges and universities "took it on the chin in the last couple of recessions," says Hicks, "so those increases are a reflection of it being a higher priority and of initiatives like performance funding being [implemented] in more states."

Transportation spending was the second-highest growth category for state spending after Medicaid. The more than 6 percent hike is largely due to revenue-focused initiatives such as increased gas taxes and new or increased vehicle registration fees. Hicks notes that transportation spending growth in recent years has outpaced states' median spending growth. "That's intentional, resource-driven activity," he says. "We expected to see it and we are."

This year did have at least one surprise: a 4.1 percent jump in total corrections expenditures, compared with just 1.5 percent growth in fiscal 2016. The rise comes as states have been trying to cut down on prison spending. Hicks attributes some of the increases in state spending on corrections to pay raises for correctional officers and the rising cost of inmate health care.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 16, 2017

[The Cost Burden of Negotiated Sales Restrictions: A Natural Experiment Using Heterogeneous State Laws.](#)

Each year, states and municipalities in the U.S. issue approximately \$400 billion of municipal bonds (about 40% of the corporate bond issue volume). States and municipalities issue bonds either through negotiated sales or through competitive sales. In a negotiated sale, the issuer sells the

bonds directly to the underwriter without previous public bidding by the underwriters. In a competitive sale, the issuer requests the underwriters to submit a firm offer to purchase the bonds, and the issuer awards the new issue to the underwriter providing the lowest interest rate cost. Many states have laws restricting bond issuers to use only competitive sales for new municipal bond issues.

In this paper we use the legal restrictions on issue choice to directly answer several policy questions. Should legislation restrict the negotiated sale of bonds? What are the costs of such restrictions? Such questions avoid the choice problem because municipal issuers must abide by the legal restrictions on the method of sale. If there is no choice involved, there is no estimation bias. The municipal bond market is a valuable empirical setting to study many economic problems because of the many natural experiments from the heterogeneity in bond laws and the laws' frequent changes.

The classification of a bond's statutory security that we developed is parsimonious by construction. It is likely that it is also scalable given that it already includes a number of bond types issued under the several chapters and sections of the statutes of 40 states. We also show evidence that it is informative: Despite including bond ratings covariates, the security parameters are statistically significant and economically meaningful in every regression. Nevertheless, we do not test whether they capture all the relevant information of the statutory security of bond. We recommend that future research use this classification when seeking a sample of comparable bonds, regardless of the policy question being addressed.

Special laws allowing negotiated sales for specific purposes in states where negotiated sales are restricted, are usually accompanied by statutory maximum terms of ten years. We recommend that future legislation include additional purposes in these special laws. It is also optimal to increase the maximum maturity to twenty years. It might be optimal to increase them above twenty years, or even eliminate the negotiated sales restrictions altogether. In designing these extensions, the policy maker must take into account the trade-off between lower yields and higher gross spreads of the restrictions for maturities above 20 years.

Read the full paper [here](#).

The Brookings Institute

by Darío Cestau, Richard C. Green, Burton Hollifield, and Norman Schürhoff

November 15, 2017

[Cultivating a Strategic Project Portfolio through Transportation Asset Management.](#)

Overview

The national discussion about infrastructure policy and financing tends to focus on how we pay for infrastructure, either at the program or project level. Equally important but sometimes overlooked issues in federal policy conversations, however, are what we are paying for and how we should decide what to pay for. What are the most important investments to make with the money we have? How are these projects identified and selected, and what does it cost to build assets that deliver on various policy objectives? What projects yield the best outcomes across such objectives as travel

efficiency, service delivery, economic growth, and equitable access to opportunity? New transportation asset management requirements designed to expand the use of life-cycle cost analysis, risk management, and long-term planning across agencies' portfolios can help answer these questions in ways that can then be integrated into transportation planning processes. And, as debate about a prospective infrastructure package intensifies, there could be ways to craft new funding mechanisms that encourage and build upon deployment of asset management principles.

[DOWNLOAD PDF](#)

THE URBAN INSTITUTE

Shoshana Lew

November 7, 2017

[**Why Governments and Investors Choose Pay for Success.**](#)

Abstract

Pay for success (PFS) has merits that make it appealing to many stakeholders: it can save governments money, shift the risk of ineffective programs to third-party funders, provide multiyear funding for service providers, and generate a modest return for investors. But these benefits are paired with significant challenges, such as long planning periods and investor returns that may not be commensurate with the risk. Given these considerations, it is fair to ask, "Why does anyone want to do this?" This brief presents insights on the motivations and perceptions of risk from several PFS investors and government stakeholders and concludes with recommendations on how PFS project champions can leverage partner motivations to help move projects forward.

[Download the full article.](#)

The Urban Institute

Kelly Walsh, Brian Bieretz, Kimberly Walker & Mayookha Mitra-Majumdar

November 6, 2017

[**When Transparency Pays: The Moderating Effect of Disclosure Quality on Changes in the Cost of Debt.**](#)

Theoretically, disclosure quality reduces the cost of debt by reducing uncertainty about future cash flows (Lambert et al., 2007). However, cross-sectional studies that empirically link disclosure quality to the cost of debt are subject to the concern that risky issuers tend to exhibit weak disclosure quality. Similarly, studies that examine changes in disclosure quality suffer the criticism that changing issuer economics drive both the disclosure change and the cost of debt change.

The municipal bond setting provides an opportunity to address these concerns and strengthen the link between disclosure quality and the cost of debt for several reasons. First, even without issuer-provided disclosures, some economic information that is relevant to issuers' credit quality is publicly

available. For example, changes in local house prices are observable and are correlated with the strength of the local economy (Campbell and Cocco, 2007; Standard & Poor's, 2012). Although property tax collections are the largest own-source of revenues for most local governments and are responsive to changes in house prices, house prices are largely outside the control of city and county officials. Therefore, conditioning on changes in local house prices helps to satisfy the *ceteris paribus* condition when comparing weak disclosers to strong disclosers.

Second, the municipal setting lends itself to the clean measurement of significant aspects of financial disclosure quality. These aspects include: the accessibility, comprehensiveness, reliability, timeliness, and regulatory compliance of financial information. Moreover, the municipal disclosure environment is lower quality and exhibits greater cross-sectional heterogeneity than does the corporate setting. Finally, municipal bond insurance and disclosure quality are substitute mechanisms to lower the cost of debt. Therefore, we use bond insurance as an instrument for disclosure quality to help attribute our results to financial reporting choices.

[Download the full paper.](#)

The Brookings Institute

Christine Cuny and Svenja Dube

Monday, October 23, 2017

[MSRB Q3 Statistical Summaries.](#)

[Read the MSRB Quarterly Statistical Summaries.](#)

[How Direct Flights Shape a City's Fortunes.](#)

Nonstop flights between cities are a more effective way of generating inter-city investment than increased airport capacity.

Not long ago, it was thought that planes would flatten the world, spreading us out even more than the rise of railroads and cars did in previous eras. But the reality has been much the reverse. Airplanes, airports, and air travel have contributed to our geographic spikiness, fueling the growing concentration of population and economic activity in a small number of large, productive, and well-connected superstar cities.

That's one of the key findings of a [recent study](#) on the effects of global airports and air connectivity on economic and urban development. The study, by economists at Harvard University's Kennedy School of Government and the University of Zurich, examines air travel's role in the economic performance of more than 819 cities and metro areas in 200 different countries. Using detailed data from the International Civil Aviation Organization, it looks specifically at how direct flights facilitate business links and investments between pairs of cities, with data on over half a million businesses and more than 30,000 major business events around the world.

To isolate the significance of direct inter-city flights, the study makes use of an interesting quirk of

global aviation regulations. Due to restrictions on crew shifts, flights of more than 12 hours, or 6,000 miles, are significantly more expensive to operate, and thus much less common. This means that some cities, simply by way of their geography, are more likely to have more numerous direct flight links, which, in turn, facilitate more business connections.

[Continue reading.](#)

CITYLAB

RICHARD FLORIDA

On the Move: The Top Counties People Are Migrating To and From.

New data shows migration patterns between counties. View updated figures for your jurisdiction.

Each year, millions of Americans and their families pick up and move. Some may go all the way across the country, but most typically migrate shorter distances within the same regions.

Research suggests that housing is the main reason why nearly half all Americans move. Indeed, it's typical to see residents relocating from counties with high real estate costs to nearby ones with less expensive housing. Family considerations account for 30 percent of relocations, while about another 20 percent move primarily for career opportunities, [according to the U.S. Census Bureau](#).

Migration data released by the Internal Revenue Service (IRS) earlier this month provides an updated snapshot of the communities where people are moving to and from. We've compiled [data](#) showing net migration flows between all counties from 2014 to 2015.

Four of the top 10 biggest recent net migration flows originated from Los Angeles County, Calif. That's in large part due to the fact that it's the nation's most populous county with more than 10 million residents. In all, L.A. County lost a net total of about 40,000 residents to other parts of the country between 2014 and 2015.

We've highlighted the top county-to-county net migration flows, summarized below, using exemptions claimed on tax returns to approximate persons moving.

Los Angeles County to San Bernardino County, Calif.

Net Migration: 11,047

Southern California recorded the nation's top net migration flow. The IRS data suggest more than 30,000 people moved east to San Bernardino County, while slightly more than 19,000 relocated in the opposite direction to Los Angeles County. Like other common migration patterns, it's largely a result of people seeking less expensive housing with more space.

Migration from San Bernardino County to L.A. County has remained fairly steady in recent years, although total numbers of individuals moving in either direction have declined.

Miami-Dade County to Broward County, Fla.

Net Migration: 7,140

For years, movement north into Broward County has consistently been among the top migration flows. Broward County recently welcomed more than 23,000 taxpayers from Miami-Dade County for a net gain of 7,140.

Broward, which includes Fort Lauderdale and a few other cities along the coast, is mostly suburban. It's likely that many of its new residents are recent immigrants; Miami is an immigration hub where immigrants initially settle before relocating.

It's worth noting that the influx of residents from Miami-Dade to Broward has slowed somewhat, though. Net migration had topped 10,000 each year before the most recent 2014-2015 period.

Queens to Nassau County, N.Y.

Net Migration: 6,684

More than 13,000 people moved to Nassau County from Queens, while only about half as many moved in the opposite direction. Like other jurisdictions in and around New York City, immigrants from abroad largely offset Nassau County's domestic migration losses, so it continues to record population increases.

Harris County to Fort Bend County, Texas

Net Migration: 6,031

Fort Bend County has emerged as one of the nation's fastest-growing counties in recent years. But of all its new residents, the majority arrive from neighboring Harris County, which includes Houston.

State Demographer Lloyd Potter attributes part of the migration pattern to the downturn in Houston's energy sector. The other part is that younger couples are forming families and moving out in search of more affordable housing. "The whole area has been growing with newer housing stock and nice subdivisions," he says.

The approximately 22,600 people who moved from Harris County to Fort Bend County represents a slight decline from recent years.

Brooklyn to Queens, N.Y.

Net Migration: 5,813

Nearly 20,000 people moved from Brooklyn to neighboring Queens, with a net migration of 5,813. This migration flow has historically been among the most common moves within New York.

That said, more people overall move out of Queens than move in from other parts of the country. But the borough's total population continues to tick upward thanks to international migration.

Los Angeles County to Riverside County, Calif.

Net Migration: 5,518

Nearly 16,000 people moved from Los Angeles County to Riverside County, with a net migration of 5,518. Riverside County typically experiences a net migration gain among residents moving within California, while losing more people to other states.

Los Angeles County to Clark County, Nev.

Net Migration: 4,970

The vast majority of Clark County's new residents arrive from out of state. Many relocate from California, where the cost of living is much higher. The IRS figures suggest numbers of newcomers to the county from other parts of the country have climbed in recent years.

Migration to Clark County from Los Angeles County accounted for, by far, the single largest county-to-county flow across any state border. The next-largest took place in Miami-Dade County, where a net total of 1,803 people moved from Harris County.

Other Top Net Migration Flows:

- Los Angeles County, to Orange County, Calif: 4,827
- Manhattan to Brooklyn, N.Y.: 4,746
- Manhattan to Bronx County, N.Y.: 4,355

Top Net Migration Per Population

Another way to assess migration between counties is to compute approximate migration per total population. By this measure, the largest numbers of residents relocated from the following counties given the total exemptions claimed (excluding smaller migration flows not exceeding 1,000):

- San Juan County, N.M., to McKinley County, N.M.: 2,994*
- Christian County, Ky., to Montgomery County, Tenn.: 1,074
- City of St. Louis, Mo., to St. Louis County, Mo.: 2,213
- City of Baltimore, Md., to Baltimore County, Md.: 2,989
- San Francisco County, Calif., to Alameda County, Calif.: 2,876
- Suffolk County, Mass., to Norfolk County, Mass.: 2,077
- New York County, N.Y., to Kings County, N.Y.: 4,746
- Hudson County, N.J., to Bergen County, N.J.: 1,955
- Fairfax County, Va., to Loudoun County, Va.: 3,605
- New York County, N.Y., to Bronx County, N.Y.: 4,355

*These counties cover tribal lands, so changes to mailing addresses are likely responsible.

[View updated migration data for all U.S. counties](#)

GOVERNING.COM

BY MIKE MACIAG | OCTOBER 16, 2017

[How to Improve Infrastructure Project Selection.](#)

Account for positive regional spillovers, environmental impacts, and job creation benefits

What this report finds: Resources for infrastructure investment are limited; therefore it is critical that we select and prioritize those projects that provide the highest net economic and social benefits. Under our current system, the benefits and costs of certain projects may be underestimated, leading to underprioritization of critical projects and overprioritization of projects that have a high social cost (e.g., transportation projects that result in significant carbon emissions).

We find three major weaknesses in the current system:

- First, an insufficient level of coordination across levels of government means that the significant regional and national benefits (“spillover effects”) of local infrastructure projects aren’t always taken into account.
- Second, the costs of climate change—and therefore the value of mitigating carbon emissions through green energy investments—are likely being underestimated when prioritizing infrastructure projects.
- And finally, the economic benefits of infrastructure projects to distressed communities—both through job creation and through addressing critical needs like safe drinking water—are likely also being underestimated in the prioritization process.

Why it matters: Infrastructure plays a key role in the economic vitality of our country. When infrastructure investment is managed inefficiently, we lose opportunities to meet some of our country’s most critical needs: maintaining the quality and integrity of our national infrastructure networks, addressing the challenges of climate change, and narrowing economic gaps across regions.

What can be done about it: Establish a governing body at the federal level to oversee infrastructure coordination; regularly reassess the social cost of carbon (SCC) emissions; and earmark a significant portion of infrastructure investment as economic stimulus for communities in distress.

Introduction

Despite a recent outpouring of bipartisan rhetorical support for an increased investment effort in infrastructure, resources for public investment of all kinds—including infrastructure—remain extremely strained. Net federal investment, for example, saw its most recent peak in 2010 and has been lower than this peak level in each year since (BEA various years).

Given this, it is crucially important to make sure that each dollar actually shaken free for infrastructure investment provides maximum “bang for the buck” in terms of social and economic benefits. Further, a number of developments in the American economy—for example, the growing threat of climate change and the extraordinarily uneven pace of recovery from the Great Recession—mean that current methods for prioritizing infrastructure projects are inadequate because they fail to ensure that we have the right mix of investments to meet future challenges.

This report highlights weaknesses in the status quo of how infrastructure projects are selected and prioritized, and it provides broad recommendations for how these weaknesses can be addressed.

Key findings and recommendations of this report are:

Infrastructure investment in the United States could benefit from much greater coordination of project selection across levels of government (federal, state, and local). Coordination is essential because a bigger-picture view is essential to ensuring that the benefits of regional and national spillover effects are taken into account when selecting and prioritizing projects. The benefits of coordination will likely grow in the near future as key infrastructure challenges that require a coherent national response—such as fundamental restructuring of the electric utility sector—rise in importance.

Recommended policy solution: Establish a governing body at the federal level to oversee infrastructure coordination. Effective coordination across levels of government will almost

certainly require a strong lead role for federal government institutions. Either a cabinet-level agency or an empowered interagency working group (modeled after the Financial Stability Oversight Council) would likely be needed to develop both the capacity and the authority to have meaningful sway over project selection decisions. A potentially useful federal tool for developing the capacity to make informed project selection decisions could be a national infrastructure bank; this bank could also explicitly specialize in projects with large likely regional spillover effects.

Cost-benefit analyses in the selection of infrastructure projects likely underestimate the full costs of carbon emissions that lead to climate change. The federal government under the Obama administration took a major step forward by including a social cost of carbon (SCC) emissions estimate in many governmental decision-making processes, but the current SCC value is potentially too low and likely underestimates the value of greenhouse gas mitigation. In addition, states are still free to essentially ignore the costs of carbon emissions (and the benefits of mitigation) when making infrastructure prioritization decisions.

Recommended policy solution: The federal government's estimate of the SCC should be reassessed on a rolling basis by a panel of experts that continually track new research and estimate its implications for the SCC. The "insurance value" of the SCC—stemming from the probability of climate catastrophes occurring due to greenhouse gas emissions should be given a larger weight in the SCC's calculation.

The welfare costs of regional disparities in economic health are likely underestimated in the national process for selecting and prioritizing infrastructure projects. This is mostly because so much infrastructure selection is done by state governments, which understandably do not take other states' economic circumstances into account when making investment decisions. However, even some of the official guidance provided by federal agencies to states about what should be considered a benefit of infrastructure investment likely radically undervalues the job-creation character of this investment.

Recommended policy solution: A significant tranche of federal investment funds should be earmarked for allocation based on long-term indicators of labor market distress, both by geography and (perhaps) by community groups within regions. The explicit goal should be to use the public investment to make sure that jobs created disproportionately benefit the places and communities that are experiencing the most labor market distress.

[Continue reading.](#)

Economic Policy Institute

By Josh Bivens • October 18, 2017

[**Less Water, More Risk: Exploring National and Local Water Use Patterns in the U.S.**](#)

Amidst a rising number of extreme weather events, service fluctuations, and other investment concerns, America's water infrastructure is at a crossroads. Frequently overlooked and taken for granted, water is not just vital for life, but also provides an economic foundation for millions of businesses, farms, power plants, manufacturers, and households that depend on a reliable supply each day in the United States.

Despite seeing declining levels of water use in recent years, the U.S. still depends on nearly 355 billion gallons each day, an enormous total speaking to the breadth of uses nationally. Water use remains high in many cases, but it is also falling across the board as new conservation measures and technologies have been introduced. Utilities must confront several competing needs as a result: fixing aging, brittle infrastructure systems in service of a productive economy while generating less predictable revenues from lower levels of water use. Rising water bills, in turn, are helping to cover these costs and are often hitting lower-income households and other vulnerable users the hardest.

To provide reliable, cost-effective service, utilities—alongside local planners, economic development officials, and other leaders—need more detailed metrics and a better understanding of how regional water needs are shifting. By providing a comprehensive comparison of metropolitan and non-metropolitan water use, this report helps to meet this need. It not only highlights the scale and complexity of how users in different areas depend on water, but it also points to difficulties these users—and providers—face managing this scarce resource in an economically efficient and equitable way.

[Download full report.](#)

by Joseph Kane

Senior Research Analyst and Associate Fellow - Metropolitan Policy Program

October 20, 2017

The Brookings Institute

[Putting Private Capital to Work In Rural Infrastructure.](#)

[Putting Private Capital to Work In Rural Infrastructure.](#)

CDFA

September, 2017

[Why Governmental Accounting and Financial Reporting Is - and Should Be - Different: GASB White Paper](#)

Read the [White Paper](#).

[Pension Math: Public Pension Spending and Service Crowd Out in California, 2003-2030](#)

[Pension Math: Public Pension Spending and Service Crowd Out in California, 2003-2030](#)

by Joe Nation, Ph.D

October 2, 2017

Stanford Institute for Economic Policy Research

[The State of U.S. Infrastructure.](#)

Introduction

The \$18 trillion U.S. economy relies on a vast network of infrastructure from roads and bridges to freight rail and ports to electrical grids and internet provision. But the systems currently in place were built decades ago, and economists say that delays and rising maintenance costs are holding economic performance back. Civil engineers raise safety concerns as well, warning that many bridges are structurally deficient and that antiquated drinking-water and wastewater systems pose risks to public health. Meanwhile, Americans' international peers enjoy more efficient and reliable services, and their public investment in infrastructure is on average nearly double that of the United States.

As President Donald J. Trump enters his first budget negotiations with Congress, debate has intensified over how to improve the nation's infrastructure. Skeptics of federal spending have pushed for new models of private sector involvement, arguing that it is more efficient and cost-effective. Others argue that increased public spending will be necessary to meet the country's growing needs and ensure that development is in the public interest.

[Continue reading.](#)

The Council on Foreign Relations

by James McBride

October 6, 2017

[What the New Urban Anchors Owe Their Cities.](#)

Corporations like Google and Amazon reap the spoils of winner-take-all urbanism. Here's how they can also bear greater responsibility.

As some of the main drivers and primary beneficiaries of the recent urban revival, anchor institutions are often the largest employers in their communities. While typical examples of "anchor institutions" include large universities, hospitals, and medical centers—so-called "meds and eds"—that quite literally anchor urban centers, other powerful anchors, including successful high-tech companies and real estate developers, have the capacity and resources to wield enormous influence on today's cities.

However, the last decade has given rise to a troubling pattern of "[winner-take-all urbanism](#)" in which a select group of large, dense cities and an even smaller number of neighborhoods reap the spoils of innovation and economic growth. Anchors benefit enormously from this recent urban revival. And as a result, they must commit themselves to generating more inclusive prosperity.

To solve our modern urban crisis, we need a broader, more encompassing strategy of inclusive prosperity that allows all residents and neighborhoods to benefit from urban revival. In a [new study](#) with Steven Pedigo, my colleague from the NYUSPS Urban Lab at the Schack Institute of Real Estate, we outline the role that anchors can and must play in creating inclusive prosperity in our urban centers.

[Continue reading.](#)

CITY LAB

RICHARD FLORIDA SEP 21, 2017

[SIFMA: U.S. Municipal Securities Holders.](#)

Quarterly or annual breakdowns of municipal outstanding by bond holder type.

[View the Report.](#)

September 22, 2017

[MSRB Identifies Compliance Considerations for Municipal Securities Dealers.](#)

As part of the MSRB's long-term commitment to facilitating compliance with municipal market rules, the Municipal Securities Rulemaking Board (MSRB) today published this [Compliance Advisory for Brokers, Dealers and Municipal Securities Dealers](#). The compliance advisory serves as a reference tool for municipal securities dealers seeking to proactively address compliance risks and assess the effectiveness of their compliance programs.

The MSRB actively engages with the dealer industry throughout the year to inform the development of this annual compliance advisory. Our advisory flags important factors for dealers to consider when evaluating the adequacy of their supervisory controls. Taking appropriate steps to address compliance risks benefits municipal securities dealers, their clients and, ultimately, investors and public confidence in the municipal securities market.

This June, the MSRB published a similar [compliance advisory for municipal advisors](#) to support their efforts to comply with new and existing standards of conduct. Additional compliance resources, including interpretive guidance, educational webinars and interactive, rule-based MuniEdPro® courses, are available on the [MSRB's website](#).

[The Bond Lawyer: Summer 2017](#)

The Summer 2017 issue of *The Bond Lawyer*® is now available. [Click here](#) to download the document.

The Bond Lawyer®: The Journal of the National Association of Bond Lawyers is published quarterly,

for distribution to members and associate members of the Association. Article submissions and comments should be submitted to Linda Wyman, (202) 503-3300.

Municipal Securities: Financing the Nation's Infrastructure

The MSRB today released a primer underscoring the role of municipal securities in financing infrastructure.

[Read the primer.](#)

Report: Federal Public Investment is the Most Efficient Way to Finance Infrastructure.

Sept. 11, 2017 – In a [new report](#), EPI budget analyst Hunter Blair finds that the state and local governments have taken a larger role in infrastructure spending, even though it is often more efficient for the federal government to lead the way. In 2015, 77 percent of public spending on transportation and water infrastructure came from state and local governments, and the Trump administration's proposed infrastructure plan implies states would cover 80 percent of increased investment. Meanwhile, Senate Democrats' proposal includes a \$1 trillion federally funded and financed infrastructure investment.

"When done well, infrastructure investment by the federal government could give the economy a boost by increasing aggregate demand and boosting productivity growth," said Blair. "The federal government is well suited to meet the needs of a large infrastructure investment."

One of the strongest reasons for the federal government to lead in infrastructure funding is its ability to help mitigate funding challenges during economic downturns. 22 states fund infrastructure on a pay-as-you-go basis. During economic downturns—when states' tax revenues decrease and social services spending increases—states' budgets become strained and state-funded infrastructure may suffer from neglect. Because the federal government can run deficits, it is well positioned to help states maintain stable or increased infrastructure investment over the course of a business cycle.

Additionally, infrastructure is often provided as part of a network, and to maintain economic efficiency that network needs consistent quality throughout. Consistent quality ensures that disruptions are not multiplied throughout the production chain. These networks benefit the nation's efficiency as a whole and so shouldn't be allowed to vary in quality because of particular state and local government funding decisions.

The federal government is also better equipped to provide equitable access to infrastructure. For services such as clean drinking water, state and local governments might not be able to provide consistent funding, which could have implications for health and safety. In this case, the federal government can reallocate resources to areas that need them.

Finally, a significant public investment in green energy by the federal government would help combat global climate change. Current consumption levels can be maintained by decreasing investment in the conventional infrastructure as we increase our investment in green energy.

However, if this investment is left to the states, it could be inconsistent, and thus, less efficient.

Economic Policy Institute

September 11, 2017

How Governments Can Maintain Strong Public-Private Partnerships.

The biggest risk to public-private partnerships in governing is not financial or technical, but political, says Justin Marlowe, professor in the University of Washington's Evans School of Public Policy & Governance.

Marlowe is the author of a new Guide to Financial Literacy, his fourth, published in August by Governing magazine.

The [first volume](#) was a general primer on public finance, [the second](#) was about managing a jurisdiction's financial health and [the third](#) was an overview of public-private partnerships — which are called P3s for short. The [new fourth volume](#) continues that discussion and is subtitled "Ensuring Public-Private Partnerships that are Built to Last."

In the new guide, Marlowe writes that public-private partnerships "are here to stay ... they're now a core part of the state and local government infrastructure tool kit." They're also more "complex and intricate" than ever, he writes, now being used for projects including "social infrastructure" like courthouses, affordable housing, university research facilities, stormwater management and more.

Government staff, Marlowe writes, can manage financial aspects of public-private partnerships with good contracts, insurance and service agreements and they can control technical risks with good designers and design processes.

Policymakers, however, are harder to manage — sometimes they just change their minds.

"They can decide a P3 is longer a priority. They try to modify its core service delivery model. They can change the criteria to evaluate a P3's success," Marlowe writes. "All these changes are well within the purview of most state and local elected officials. If any of these happen, a P3 will quickly fall out of alignment and fall short of its objectives."

Marlowe pens the financial guides with newly elected or appointed government officials in mind. They have the job, but many come to office knowing little or nothing about public finance. The guides are meant to help such officials better understand their role in the world of government finance.

The new guide features "Ten Tools of P3 Governance," a set of techniques public managers can use to increase the chances that a public-private partnership will succeed. The list includes best practices such as key performance indicators, contingency payments and routine performance audits, among others.

Marlowe plans no further volumes of the financial guide — though he notes also that he's said after volumes two and three as well.

"I do hope that someone else can take the financial literacy format and run with it," he said. "There's

no end to the demand for thoughtful, credible, accessible explanations of public finance.”

UW News

by Peter Kelley

September 5, 2017

[The Untold Story of Mid-Sized Economies.](#)

The National League of Cities’ latest report, [Local Economic Conditions: The Untold Story of the Varied Middle](#), finds that 84 percent of cities say their local economies have improved since 2016. The new analysis reveals a dynamic economic landscape that has given rise to five distinct types of local economies: a highly rural cluster; a large central city cluster; and three types of mid-sized economies.

Rural vs. urban. It’s a simple yet compelling narrative about the dichotomous relationship between place and economic growth.

But digging deeper reveals an even more dynamic economic landscape, particularly among mid-sized cities. We explore these nuances in our new report, [Local Economic Conditions: The Untold Story of the Varied Middle](#).

The drivers of both economic growth and decline in places with populations between 50,000 and 300,000 are quite varied, changing rapidly and leading to divergent economic outcomes. Until now, our glimpse into mid-sized cities has been limited to a fuzzy picture of places that are not rural, not mega-cities, but someplace in between.

To better understand the forces undergirding the condition of local economies of all types, the National League of Cities (NLC) conducted a survey to gauge the performance of key local economic indicators in cities. We then performed a cluster analysis to clearly identify how specific economic factors converge and give rise to distinct types of local economies.

Five groupings of local economies emerged. a “Rural Brain Drain” cluster of highly rural cities with shrinking populations; a large central city cluster of “Major Job Centers”; and three distinct types of mid-sized local economies. We define these three mid-size economies as “Room to Grow,” “Mid-sized Business Boomers” and “Cities on Par.”

Change in Local Economic Conditions By Economy Type Since 2016



Looking more closely at the mid-size local economies, the Room to Grow economies are defined by favorable commercial property values, affordable housing stock and population growth. Cities in this cluster are known for their office parks and outlet malls. These areas are under threat as corporate headquarters look to move from spacious suburbs into core-city downtowns. They are also experiencing a significant decline in the health of their retail sectors. Interestingly, this is the only cluster in which affordable housing availability is identified as a positive economic driver: these suburbs appear to be key exhaust valves for otherwise tight regional housing markets, reaping the benefits of affordability challenges in core cities that are forcing people out.

Meanwhile, the Mid-Sized Business Boomer city cluster comprises hotbeds of business expansions located mostly in core cities of mid-sized metro areas. Business boomers have adapted to the new tech and small-scale manufacturing economies and are attracting business travel and tourism. Their business sectors, however, seem to be growing more quickly than the available talent, leading to a significant misalignment of workforce skills and business demands. And as business boomers become more concentrated business centers, their housing markets are tightening, presenting significant challenges related to affordable housing and homelessness.

Lastly, the economies of the Cities on Par cluster tend to have populations between 50,000 and 100,000 and are defined largely by their high residential property values. With fewer distinguishing characteristics than other clusters, cities on par seem to be more or less experiencing the national trend of slow, positive growth following the Great Recession. They rely on new business starts to drive growth and have noted reductions in commercial and residential property vacancies and crime over the past year. But much like many other cities across the country, they suffer from a lack of affordable housing and are having trouble meeting the needs of at-risk populations.

Our analysis of local economies presents a picture of both promising economic trends and the complexities that lie beneath. Illuminating the differences driving local economics, particularly of mid-sized cities, is important because it helps inform local-level policymaking and strategic planning. More broadly, unlocking the latent economic potential of the United States will require enabling cities and regions, particularly mid-sized economies, to localize solutions to meet their specific needs and harness their assets.

National League of Cities

August 30, 2017

[The Effect of Vacant Building Demolitions on Crime Under Depopulation.](#)

Abstract

Many policymakers argue that vacant or blighted houses are havens for crime and that to make people and communities safer, we just need to tear them down. But is improving public safety as simple as turning vacant buildings into vacant lots? The answer is yes, according to a new study, which analyzes data from Saginaw, Michigan—the most violent city in America from 2003 through 2008.

Read the full article [here](#).

by Christina Plerhoples Stacy

August 25, 2017

The Urban Institute

[Conduit Financing With Tax-Exempt Bonds: Orrick](#)

The purpose of this pamphlet, part of our Public Finance Green Book Series, is to assist conduit

issuers in identifying issues and setting up policies and procedures related to their tax-exempt bond programs and their relationships with other participants in conduit financings.

[Download the Pamphlet.](#)

by Justin Cooper

September 1, 2017

Orrick, Herrington & Sutcliffe LLP

[SIFMA Research Quarterly, Second Quarter 2017.](#)

Long-term securities issuance totaled \$1.73 trillion in 2Q'17, a 9.8 percent decrease from \$1.92 trillion in 1Q'17 and a 12.8 percent decrease year-over-year (y-o-y) from \$1.98 trillion. Issuance decreased quarter-over-quarter (q-o-q) across all asset classes but municipal, agency and asset-backed securities; y-o-y, growth was negative in all asset classes except asset-backed securities and equity underwriting.

Long-term public municipal issuance volume including private placements for 2Q'17 was \$105.1 billion, up 15.4 percent from \$91.2 billion in 1Q'17 but down 16.2 percent from 2Q'16.

The U.S. Treasury issued \$570.8 billion in coupons, FRNs and TIPS in 2Q'17, down 12.7 percent from \$654.1 billion in the prior quarter and 3.5 percent below \$591.6 billion issued in 2Q'16.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations, totaled \$364.4 billion in the second quarter, a 10.4 percent decline from 1Q'17 (\$406.8 billion) and an 18.2 percent decrease y-o-y (\$445.5 billion).

Corporate bond issuance totaled \$390.7 billion in 2Q'17, down 18.2 percent from \$477.4 billion issued in 1Q'17 and down 10.7 percent from 2Q'16's issuance of \$437.5 billion. Of 2Q'17 corporate bond issuance, investment grade issuance was \$325.6 billion (83.3 percent of total) while high yield issuance was \$65.1 billion (16.7 percent).

Long-term federal agency debt issuance was \$164.4 billion in the second quarter, an 8.7% percent increase from \$151.2 billion in 1Q'17 and a 36.3 percent decrease from \$258.0 billion issued in 2Q'16.

Asset-backed securities issuance totaled \$81.5 billion in the second quarter, an increase of 6.6 percent q-o-q and a 12.1 percent increase y-o-y.

Equity underwriting decreased by 12.7 percent to \$51.7 billion in the second quarter from \$59.2 billion in 1Q'17 and up 0.6 percent from \$51.4 billion issued in 2Q'16. Of the total, "true" initial public accounted for \$8.6 billion, down 19.8 percent from \$10.8 billion in 1Q'17 and up 41.3 percent from \$6.1 billion in 2Q'16.

[Read the report.](#)

[GASB User Guide Series: New Local Government Guide](#)

The 3rd edition of What You Should Know about Your Local Government's Finances: A Guide to Financial Statements is [now available](#).

[Risky Business: Bank Loans to Local Governments.](#)

The authors recently graduated with Master in Public Policy degrees from Stanford. They conducted research in conjunction with the Volcker Alliance, a nonprofit, nonpartisan organization that was launched in 2013 to address the challenge of effective execution of public policy and rebuild trust in government. Their advisors were Joe Nation, a SIEPR researcher, and Christine Pal Chee, a lecturer in the Public Policy Program.

Local governments across California — and the U.S. — are increasingly borrowing from commercial banks instead of issuing public bonds. These loans can be problematic for financial markets and for local governments themselves, risking a lack of transparency and poor terms including accelerated or immediate repayments for events such as a ratings agency downgrade.

Our research, based on California Debt and Investment Advisory Commission (CDIAC) data from 2010 to 2016, found that more than half of California municipalities that borrowed directly from banks are at such financial risk.

Historically, local governments have raised funds through issuing public bonds, a process regulated by the Municipal Securities Rulemaking Board (MSRB), a regulatory agency focused on municipal financing and subject to oversight of the Securities Exchange Commission (SEC). The process is highly transparent, informing citizens and financial market participants alike.

[Continue reading.](#)

Stanford Institute for Economic Policy Research

By Benji Nguyen, Sylesh Volla, and Annabel Wong

Aug 2017

[How Much Climate Change Will Cost Each U.S. County.](#)

It's not just an environmental issue, and for the first time, researchers have calculated global warming's potential economic impact on each county.

States and localities across the U.S. are already experiencing profound weather shifts associated with climate change, from rising sea levels and flooding to drought and dangerously hot summers. Economists have long been warning that these changes will come with a cost. But until now, there's been no measure of what that cost might be for individual counties.

A study published in the journal Science in June is the most extensive model available of what

climate change could cost the United States, county by county. (View an interactive map at the bottom of this article). The study is the first of its kind, linking climate projections with economic effects like mortality, labor productivity, energy demand and crop yields.

[Continue reading.](#)

GOVERNING.COM

BY NATALIE DELGADILLO | AUGUST 23, 2017

[Black & Veatch: Electric Industry Report](#)

Black & Veatch is pleased to offer you the *2017 Strategic Directions: Electric Industry Report*.

The full report is available for you to [download here](#).

This report captures Black & Veatch's global engineering and thought leadership to examine how reliability, aging infrastructure and customer demand for green energy are driving investments in transmission and distribution. The report also explores how utilities — despite headlines suggesting potential rollbacks of emissions mandates — are driving the grid further toward sustainability.

[The Challenges of State Reliance on Revenue from Fossil Fuel Production.](#)

Taxes on oil, natural gas, and coal can be attractive to state governments in part because mineral assets are immobile and because states may be able to pass along some of the tax burden to energy consumers outside their states. But despite these taxes' efficiency and distributional advantages, relying too much on them poses real downside risks for states.

First, experience demonstrates mineral-related revenues are subject to wide swings resulting from fluctuations in energy markets. Currently, a number of states are facing significant budget shortfalls as a result of their fiscal dependence on fossil fuel production when just a few years ago they experienced a boom in revenue.

[Continue reading.](#)

The Brookings Institute

by Adele Morris

Tuesday, August 9, 2016

[P3 Infrastructure Delivery: Principles for State Legislatures.](#)

This policy brief is designed to supplement existing National Conference of State Legislatures resources on P3s. Informed heavily by the NCSL Foundation Partnership on Multi-Sector P3s, this

report attempts to connect concepts from the NCSL P3 Toolkit with real-world examples and developments in P3 enabling statutes.

[Read the brief.](#)

[The 2017 Financial Advisor's Guide To Social Media.](#)

From meeting regulations to developing strategy, this is your guide to social media in the financial services industry

With regulators [ramping up fines and disciplinary actions](#) and the [SEC's Form ADV deadline](#) looming, now is the right time to ensure that your social media program is both effective and in line with your regulatory obligations.

This e-book contains FINRA and SEC guidelines as well as practical steps that will help you develop smart social media strategies and policies to gain maximum business value from your social efforts while meeting your compliance obligations.

Download the [The Financial Advisor's Guide to Social Media](#) to learn:

- Social media recordkeeping regulations from the SEC and FINRA
- Simple steps to develop a strong social media policy
- How to get the most value from different social media platforms

[How Has Education Funding Changed Over Time?](#)

Elementary and secondary education is funded through a complex mix of federal, state, and local dollars. Local and national economic changes, legislative decisions, and, in many cases, court orders, have all affected school district funding over time. This tool examines where education funding has changed the most and where it has not.

To understand how education funding has changed, we look at the level of school district funding over time and at the changes in [funding progressivity](#), or how much more is spent on educating low-income students relative to nonpoor students. (Our default is to compare states using dollars that are cost-adjusted based on the salaries of college graduates in each district, but you can turn that adjustment off using the checkbox below.) Though education funding has generally increased since the 1990s, overall progressivity has largely been flat, and states vary widely in how much money they spend on education and how they distribute that money.

Below, you can explore how local, state, and federal funding have changed over the past two decades. The chart to the left shows the national average; clicking a state will add its trend line to the chart. To look only at one type of funding (e.g., from the state government) turn the different funding sources on or off.

[Continue reading.](#)

The Urban Institute

U.S. Municipal Credit Report, Second Quarter 2017

About the Report

The municipal bond credit report is a quarterly report on the trends and statistics of U.S. municipal bond market, both taxable and tax-exempt. Issuance volumes, outstanding, credit spreads, highlights and commentary are included.

Summary

According to Thomson Reuters, long-term public municipal issuance volume totaled \$100.7 billion in the second quarter of 2017, an increase of 16.3 percent from the prior quarter (\$86.6 billion) but a decline of 15.8 percent year-over-year (y-o-y) (\$119.5 billion). As of the end of June, year-to-date municipal issuance totaled \$187.2 billion and was generally in line with the 10-year average of \$185.7 billion. Including private placements (\$4.6 billion), long-term municipal issuance for 2Q'17 was \$105.1 billion.

Tax-exempt issuance totaled \$87.6 billion in 2Q'17, an increase of 14.4 percent q-o-q but a decline of 16.9 percent y-o-y; year to date, tax-exempt issuance was \$164.2 billion. Taxable issuance totaled \$9.3 billion in 2Q'17, an increase of 29.0 percent q-o-q and an increase of 36.4 percent y o y; year to date, taxable issuance totaled \$16.6 billion. AMT issuance was \$3.7 billion in 2Q'17, an increase of 35.3 percent q-o-q but a decline of 48.3 percent y-o-y; year to date, AMT volumes were \$6.5 billion.

By use of proceeds, general purpose led issuance totals in 2Q'17 (\$22.0 billion), followed by primary & secondary education (\$20.6 billion) and water & sewer facilities (\$10.4 billion). Refunding volumes rose slightly to comprise 40.8 percent of issuance in 2Q'17 from 34.2 percent in the prior quarter but were a decline from 51.5 percent year-over-year.

[Read the Report.](#)

August 10, 2017

Deloitte White Paper on the DOL Fiduciary Rule.

The DOL Fiduciary Rule: A study on how financial institutions have responded and the resulting impacts on retirement investors. Report on Financial Institutions' Responses to the Department of Labor Fiduciary Rule and its Impacts on Investors.

On April 20, 2015, the Department of Labor ("DOL") proposed a new definition of who is a "Fiduciary" under the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code of 1986. On the same day, the DOL published new administrative class exemptions from the prohibited transaction provisions of ERISA (29 U.S.C. 1106) and the Code (26 U.S.C. 4975(c)(1)): The Best Interest Contract Exemption ("BIC" Exemption) and the Class Exemption for Principal Transactions in Certain Assets Between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs ("Principal Transactions Exemption"), as well as amendments to previously granted exemptions (referred to collectively as "the Rule" throughout this document).

The Rule became effective on June 7, 2016 and was originally scheduled to be phased in across two

compliance dates with the first phase of compliance beginning on April 10, 2017. Following a Presidential Memorandum¹ directing an updated economic analysis of the Rule, the DOL removed certain transition period requirements, delayed the initial applicability date to June 9, 2017, and postponed the onset of certain Rule and exemption requirements until January 1, 2018.

[Read the White Paper.](#)

Modernizing Government's Approach to Transportation and Land Use Data: Challenges and Opportunities.

In the fields of transportation and land use planning, the public sector has long taken the leading role in the collection, analysis, and dissemination of data. Often, public data sets drawn from traveler diaries, surveys, and supply-side transportation maps were the only way to understand how people move around in the built environment – how they get to work, how they drop kids off at school, where they choose to work out or relax, and so on.

But, change is afoot: today, there are not only new data providers, but also new types of data. Cellphones, GPS trackers, and other navigation devices offer real-time demand-side data. For instance, mobile phone data can point to where distracted driving is a problem and help implement measures to deter such behavior. Insurance data and geo-located police data can guide traffic safety improvements, especially in accident-prone zones. Geotagged photo data can illustrate the use of popular public spaces by locals and tourists alike, enabling greater return on investment from public spaces. Data from exercise apps like Fitbit and Runkeeper can help identify recreational hot spots that attract people and those that don't.

[Read the Report.](#)

The Brookings Institute

by Adie Tomer and Ranjitha Shivaram

Thursday, July 20, 2017

"The Fixed Income Dealer Evolution" An Overview of the Competitive Landscape for Regional Dealers.

Bond Dealers of America and Greenwich Associates Release Report: "The Fixed Income Dealer Evolution" An Overview of the Competitive Landscape for Regional Dealers.

BDA is pleased to release a new report, created in partnership with Greenwich Associates, that provides an overview of the competitive landscape for regional broker-dealers. This is a first-of-its-kind report that highlights the issues that matter most to regional dealers compared to larger dealers.

In 2017, one of BDA's key strategic initiatives is to continue to connect BDA members with market

experts and consultants, like Greenwich Associates, who can deliver tangible business-focused strategic intelligence—to help BDA member firms grow and thrive. This report is part of that effort. Additionally, BDA staff will use this report to help educate Congressional offices about the role of middle-market dealers, fixed-income market structure, and the regulatory pressures on small-to-medium-sized dealers.

Fixed-Income Dealer Evolution

The report, [“The Fixed-Income Dealer Evolution”](#) is based on the survey responses from BDA member firms and also from bulge-bracket firms that were surveyed by Greenwich Associates during the second quarter of 2017. Additionally, the report relies on survey data from Greenwich Associate’s annual buy-side survey

Report Highlights

Regional Dealer Market Presence:

- 96% of high-grade corporate bond investors trade with regional dealers, trading on average 15% of their total volume with regionals
- 50% of middle-market dealers, compared to 33% of bulge bracket firms, believe they provide value by providing quality content to investors

Regulatory Pressure:

- 75% of regional dealer respondents cited regulation as the biggest challenge to success in the coming year, compared to 46% of bulge bracket firms that cited regulation as the biggest obstacle to success

Market Transformation:

- 63% of regional dealers expect the composition and focus of their trading desks to change in the next year
- 73% of bulge bracket firms expect their desk composition to stay the same

Opportunities for Regional Dealers:

- 45% of bulge bracket firms stated they had cut the number of clients they cover in the past two years
- 78% of regional dealers stated they had increased the number of clients over the same time frame

Bond Dealers of America

July 31, 2017

[GFOA Releases Research Report on Fiscal Sustainability.](#)

Financial Sustainability: Mutual Trust for Communitywide Benefit

Maintaining the financial capacity to provide quality services is a concern for all local governments. This is especially true in a time of immediate cost pressures, like pension and infrastructure, and resource constraints, like reduced financial support from state and federal governments and public

aversion to higher taxes. Further, an aging population uses more in public services and pays less in taxes, which means local governments will be facing fiscal pressures for years to come. Failure to take on these challenges in a systematic and thoughtful way could endanger the financial sustainability of our communities and, with it, their health, safety, and welfare.

[Download](#)

NABL Releases Paper on Direct Purchases.

On July 26, NABL released *Direct Purchases of State or Local Obligations by Commercial Banks and Other Financial Institutions*. This paper identifies various issues that arise in connection with the structuring and negotiation of direct purchase transactions, and explores some of the more commonly encountered provisions present in direct purchase documents.

Part I of this paper describes common structures and terms and examines basic documentation and interest rate mechanics, as well as maturity, prepayment, and amortization provisions. Part II explores some of the representations, warranties, and covenants frequently negotiated in direct purchase agreements. Part III examines provisions that are often requested by banks in a direct purchase transaction and that are typically not included in public offerings. Part IV describes events of default and remedy features that are often considered in direct purchase transactions.

The paper also highlights other legal issues relevant to direct-purchase transactions. Part V briefly examines the considerations involved in determining whether direct purchase obligations are loans or securities. Part VI discusses current efforts for voluntary disclosure of direct purchase transactions and regulatory proposals to require disclosure. Finally, Part VII highlights several tax-related concerns that should be flagged for consideration by tax counsel in direct purchase transactions.

Direct Purchases of State or Local Obligations by Commercial Banks and Other Financial Institutions is available [here](#).

GASB Proposes Implementation Guide for Other Postemployment Benefits.

[Read the Exposure Draft.](#)

7/25/17

Improving Financial Disclosure by State and Local Government Borrowers.

State and local government financial reporting is regulated more lightly than that of corporations, but recent enforcement actions taken by the Securities Exchange Commission alleging fraud and other developments have sparked an effort to promote better financial disclosure by state and local government borrowers.

This has raised several questions. What benefits do better disclosures produce? And do these

benefits outweigh the costs? Two papers to be presented at the sixth annual Municipal Finance Conference address these questions.

The first, ["When transparency pays: The moderating effect of reporting quality on changes in the cost of debt."](#) begins with a simple intuition: improved reporting on a municipal government's finances should reduce uncertainty about its ability to service its debts, which, in turn, should reduce the cost of borrowing. "Higher quality, timelier, more transparent reporting means less information asymmetry between the issuer and its bondholders and less uncertainty about the issuer's changing default risk," Christine Cuny and Svenja Dube from the Stern School of Business at New York University write. However, much empirical research on the subject doesn't adequately account for an important fact- risky issuers tend to have weak reporting quality. The authors address this concern. They ask: are issuers with stronger reporting quality less likely to be downgraded and more likely to be upgraded than similar issues with weaker reporting quality?

Cuny and Dube match issuers with the same beginning credit rating that are exposed to the same drop in house prices; house prices are used by rating agencies as an indicator of local economic conditions. They then examine how the issuers with stronger disclosure fared relative to those with weaker disclosure. They find that a one standard deviation improvement in reporting quality lowers the probability of a ratings downgrade by 46% and raises the probability of an upgrade by 31%, all else equal. The impact of reporting quality is greater when adverse local housing conditions persist for more than one year, supporting the notion that that reporting quality reduces uncertainty about default risk. Overall, these results suggest that reporting quality can indeed lower municipal borrowing costs.

The second paper, ["Regulatory Disclosure interventions in Municipal Securities Secondary Markets: Market Price Effects and the Relative Impacts on Retail and Institutional Investors."](#) examines the impact of steps the Municipal Securities Rulemaking Board, a self-regulatory agency that oversees the municipal bond market, has taken to require more disclosure by broker-dealers. In 2008, seeking to reduce concerns that institutional investors were getting better prices for municipal bonds than individual investors, the MSRB launched an online disclosure portal-the Electronic Municipal Market Access (EMMA). EMMA provides public access to municipal bond disclosure documents and near real-time data on market trade prices. Komla Dzigbede of the State University of New York at Binghamton uses the EMMA intervention to examine two questions: 1) What is the impact of the EMMA on secondary market pricing of municipal securities? and 2) has EMMA changed institutional investors' usual trade price advantage over retail investors?

Dzigbede compares daily price differentials and volatility in prices of California state general obligation bonds traded before and after the implementation of EMMA, accounting for factors relating to individual bond trade, bond characteristics underlying the trade, and market factors influencing the trade. He then compares these effects between individual and institutional investor segments. He finds that EMMA enhanced the efficiency of trade pricing - that is, the interventions decreased the average daily price differential and trade price volatility. But he also finds that the benefits effects of regulatory interventions were greater for institutional investors than for individual investors. Institutional investors' pricing advantages persist after the regulatory interventions. These results suggest that regulators should look for policies that more effectively counteract disparities in information flow to equalize opportunities for retail investors, he says. "Overall, regulatory policy in the municipal bond market contexts must stretch beyond interventions and enforcement of disclosure rules to emphasize, to a greater extent, other supportive mechanisms [...]" to address the information disparity, Dzigbede concludes.

The Brookings Institute

Vivien Lee and David Wessel

Monday, July 17, 2017

Editor's Note: The papers discussed in this post were presented at the 2017 Municipal Finance Conference on July 17 and 18 at Brookings.

[Supreme Court Review for Local Governments: June 2017.](#)

In the last month of its term (June), the Supreme Court often issues opinions at a dizzying pace. Below is a very brief summary of the cases decided last month affecting local governments.

When it comes to big cases, the Supreme Court's last term was the quietest in recent memory. For local governments, though, the Court's term was business as usual. In June, and throughout the term, the Court decided a number of police and First Amendment cases which affect local governments directly and indirectly. Local governments were named parties in a number of cases this term.

[Continue reading.](#)

National League of Cities

June 18, 2017

[New Brookings Report Reveals Challenges and Opportunities in Modernizing Government's Approach to Land Use and Transportation Data.](#)

Washington, D.C. — A new report from the Brookings Institution Metropolitan Policy Program explores why, even with the availability of ever-increasing sets of sophisticated geo-coded data and rapidly developing computing capacity, governments lack critical systems, processes, and regulatory flexibility to use them effectively for public transportation and land use planning.

The substantial penetration of connected devices into everyday life—from smartphones in individual pockets to fixed equipment in public spaces—offer untold potential to understand how people move and where they do business on a daily basis. However, most public agencies cannot leverage all the data the marketplace produces.

To address this wide-ranging public sector problem, Adie Tomer and Ranjitha Shivaram have published [Modernizing Government's Approach to Transportation and Land Use Data: Challenges and Opportunities](#), a report which outlines the structural, but surmountable, challenges governments experience integrating new data and techniques into decisionmaking processes.

This report is an early step in designing a data-focused playbook for public agencies to consider the next stage of planning and investment in local built environments, adjustments which will require modernized regulatory approaches to data procurement and use. The report includes one of the clearest catalogs of emerging data sources related to transportation and land use. Based on

interviews with other experts, it also describes the challenges to integrating new datasets and proposes policy reforms to address them.

“In a world increasingly filled with geospatial sensors, practically every action and movement we make throughout our day is tracked,” says Adie Tomer, lead author. “While private industry continues to develop innovative data products at an unprecedented rate, the public sector has been playing catch-up in collecting and using all that data effectively. There is reason for optimism, however, with an understanding that the door is open for government agencies to upgrade their approaches, helping to elevate their communities through new forms of public-private data partnerships and modernized policy frameworks.”

[GASB Issues Exposure Draft, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.](#)

[Read the draft.](#)

07/12/17

[Harvesting the Value of Water: Stormwater, Green Infrastructure, and Real Estate.](#)

How Stormwater Retention Paid Dividends for Three Sites

Recently, ULI hosted a webinar looking at how three different land uses were able to economically include stormwater diversion infrastructure in ways that added value. From a park in Washington, D.C., to a former department store warehouse in Portland, Oregon, to a Whole Foods site in suburban Raleigh, North Carolina, these diverse projects are linked by a common ingenuity in handling stormwater challenges.

These three examples were among many showcased in the Institute’s recent report, [Harvesting the Value of Water: Stormwater, Green Infrastructure, and Real Estate](#), which highlighted the numerous ways in which water is not merely a threat requiring defensive measures, but “one that can be harnessed to make cities more sustainable and livable.” These examples ranged from a suburb near Dallas to a flood-prone site in New Orleans to a pier development in Boston—locations prone both to excess water and to too little water—and featured an assortment of tools that can be combined given the circumstances. It is both an address of problems for cities and individual properties and sometimes even a means to make a profit. As the report notes:

“Cities across the United States are embracing green infrastructure approaches because they offer social, economic, and environmental benefits while addressing water challenges. Green infrastructure cost-effectively reduces sewer system overflows and manages stormwater runoff, improves local water quality, decreases the use of potable water, reduces heat-island effects, improves public health, enhances recreational opportunities, increases employment, and stimulates economic growth—all at a lower cost than gray infrastructure solutions alone.”

The projects featured in ULI’s webinar each involved differing approaches to water, designed to turn an unwelcome guest into a helpful one.

Brad Fennell, senior vice president at W.C. Smith, spoke about the public/private partnership of Canal Park in Southeast Washington, D.C., an infill park built in 2012 as an anchor both for the company's construction nearby and for the neighborhood in general.

Property developers and owners also indicated that design and operation of stormwater projects requires a learning curve, particularly in terms of landscape maintenance for green infrastructure installations such as bioswales and rain gardens. The three-block park replaced a former bus parking lot and public housing, and its foliage and leisure space are immediately apparent. The park is a space for area residents and employees to leave their cares behind, but the park is a warren of underground activity. As Fennell commented, "While lush landscaped areas provide a tranquil area to picnic and engage in a civic way below the surface, the park's hard at work capturing and cleaning stormwater. Most visitors to the park are unaware of the extensive stormwater recycling that's happening under their feet."

A complex system rests beneath the surface: one 40,000-gallon (151,000 liter) holding tank that pumps water to bioplayers that irrigate the landscape. The water is then routed to a second cistern of the same size, where it is then cleansed through microfilters before use in the park's fountains and restrooms, and seasonally, in the park's 10,000-square-foot (929 sq m) ice rink. This water is tested weekly for quality. It is designed not merely with the idea of collecting water from the park itself, but also from nearby blocks that might not accommodate stormwater as effectively. It remains necessary to augment the site's uses with potable water for human consumption, but most needs can be filled by on-site collection.

One person asked whether this eliminated the need for water entirely; it cannot completely, due to inevitable seasonable variation:

"In a perfect world, we would have a big-enough storage facility to hold all the water necessary, but ultimately it rains during the colder seasons when you don't need the irrigation and it tends to be dry during the seasons when you're in drought, so having the ability to funnel more water into the system will help us in the long run."

The second project profiled was of a substantially different nature—not a permeable park, but a solid warehouse, a historically landmarked former department store warehouse in Portland. Working around the building's historic character, plenty of improvements were still possible. Sidewalk bioswales were located on every side of the full-block building, and accentuated by an 11,700-square-foot (1,100 sq m) green roof also featuring a solar array. All water from the rooftop is collected and reused for toilet flushing.

In renovating the building, Gerding Edlen, the property management company, realized that an entirely new foundation would be necessary. Thus, they decided to seize this opportunity to place a cistern beneath that surface, according to Renee Loveland, director of sustainability, Gerding Edlen, "by going deeper into the basement and creating the floor above." She estimated the necessary cost of reconstruction at about \$60,000 in any case; for an additional "\$80,000 in plumbing costs and pumps and motors and those sort of things," they yielded a 169,000-gallon bunker for water in the building's effective sub-basement.

It is an impressive figure that has yielded other impressive benefits. Loveland said that in 2016 "our harvested rainwater met 93 percent of all nonpotable needs in the building." Reclaimed rainwater provided 52 percent of all water use, potable or otherwise, for the building in that year. This system provided a dramatic reduction of 107 percent in the building's water bill. "We actually saved more money than we paid the city last year due to the water savings we achieved." And that is not the only benefit: the green roof has provided for reduced building heat gain and is an amenity to employees

in its own right.

The next project shifted yet again, from city to suburb, to a six-acre (2.4 ha) project, the Market at Collonade, which contains a Whole Foods and a smaller additional building. Chris Widmayer, vice president of Regency Centers, outlined the site's constraints. "One is we did not have enough land to do traditional stormwater detention. The typical aboveground systems that we had looked at were too expensive." The site was additionally adjacent to a watershed and at active and frequent risk of stormwater runoff. They ended up with a site that is 80 percent impervious to water, and yet filled with other features to overcome this deficiency. As Widmayer commented, "A combination of cisterns to take the stormwater from the roof, subsurface infiltration systems, bioswales, and bioretention areas to clean the water, and landscape irrigation systems to use the water that has been reclaimed in a massive underground detention chamber." A cistern beneath the parking lot can contain 350,000 gallons (1.3 million liters) of water, used both for storage and to irrigate the landscaping. Another aboveground cistern next to Whole Foods collects all the water from the retailer's roof, then uses it for assorted purposes within the store. It is a system that can absorb a remarkable amount of water. According to Widmayer, "with 36 inches of rainfall, only 0.6 inch [1.5 cm] float out of the system and into public storm systems." In practical terms, "less stormwater runoff than the typical suburban house."

A question emerged as to how these projects are being funded. These do involve varying amounts of resources from government bodies. The District of Columbia provided 65 percent of financing for the Canal Park project, and the North Carolina Clean Water Management Trust fund furnished around \$500,000 for the North Raleigh Project. There are encouraging signs that these are becoming less necessary. The Portland project received a \$25,000 grant from the city's Green Investment Fund, but this grant no longer exists—not for lack of interest, but because such practices have become ubiquitous. Loveland said, "I would say that there are fewer financial incentives in this market currently for stormwater strategies because it's become so much more commonplace."

The Urban Land Institute

By Anthony Paletta

July 5, 2017

[U.S. Municipal VRDO Update, June 2017](#)

A brief historical stat sheet to the municipal ARS, FRN, and VRDO market ending June 2017.

[View the update.](#)

[GASB Establishes Single Approach for Reporting Leases.](#)

Norwalk, CT, June 28, 2017 — The Governmental Accounting Standards Board (GASB) today issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. This single approach is based on the principle that leases are financings of the right to use an underlying asset.

[GASB Statement No. 87, Leases](#), provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses).

Under the new Statement, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lessee also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset
- Interest expense on the lease liability
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor also will report the following in its financial statements:

- Lease revenue, systematically recognized over the term of the lease, corresponding with the reduction of the deferred inflow
- Interest revenue on the receivable
- Note disclosures about the lease, including a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

"The Board's new leasing guidance better aligns the accounting and financial reporting of these arrangements with their economic substance," said GASB Chairman David A. Vaudt. "The new single model for reporting governmental leasing agreements is designed to result in greater transparency and usefulness for financial statement users. It also is meant to reduce complexity in application for preparers and auditors of governmental financial statements."

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend
- Financed purchases
- Leases of assets that are investments
- Certain regulated leases, such as between municipal airports and air carriers.

Other issues addressed in the Statement include:

- Accounting for lease terminations and modifications
- Sale-leaseback transactions
- Nonlease components embedded in lease contracts (such as service agreements)
- Leases with related parties.

The full text of Statement 87 and a [high-level overview](#) featured in the current issue of the GASB Outlook are available on the GASB website, www.gasb.org.

Considerations Related to Costs and Benefits

One of the principles guiding the GASB's setting of standards is that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the

expected overall public benefit. Although the costs of implementing the changes required by this Statement may be significant, the Board believes that the expected benefits that will result from the information provided through implementation of the Statement, both initially and on an ongoing basis, are significant.

The exceptions identified above, as well as exclusions of supply contracts and leases of inventory, will reduce the cost of implementation. The Statement also includes cost-reducing provisions regarding reassessment of the lease term, allowing governments to report multiple-component contracts as a single lease unit when a best estimate of individual components is not practicable, and not requiring lessors to derecognize underlying assets, among other provisions.

About the Governmental Accounting Standards Board

Established in 1984, the GASB is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). These standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports. The Financial Accounting Foundation (FAF) supports and oversees the GASB. For more information, visit www.gasb.org.

[Estimating Economic Damage from Climate Change in the United States.](#)

Global warming will intensify regional inequality in the United States, according to a revolutionary new economic assessment of the phenomenon.

Climate change will aggravate economic inequality in the United States, essentially transferring wealth from poor counties in the Southeast and the Midwest to well-off communities in the Northeast and on the coasts, according to the most detailed economic assessment of the phenomenon ever conducted.

[The study](#), published Thursday in *Science*, simulates the costs of global warming in excruciating detail, modeling every day of weather in every U.S. county during the 21st century. It finds enormous disparities in how rising temperatures will affect American communities: Texas, Florida, and the Deep South will bleed income in the broiling heat, while some chillier northern states gain moderate benefits.

“We are really sure the South is going to get hammered,” says Solomon Hsiang, one of the authors of the paper and a professor of public policy at the University of California, Berkeley. “The South is really, really negatively affected by climate change, much more so than the North. That wasn’t something we were expecting going in.”

[Continue reading.](#)

THE ATLANTIC

ROBINSON MEYER JUN 29, 2017

[NASBO Fiscal Survey of the States.](#)

With data gathered from all 50 state budget offices, this semi-annual report provides a narrative analysis of the fiscal condition of the states and data summaries of state general fund revenues, expenditures, and balances. The spring edition details governors' proposed budgets; the fall edition details enacted budgets.

Overview - Spring 2017

Governors' budgets for fiscal 2018 are extra cautious as states contend with slow revenue growth, limited budget flexibility and substantial federal uncertainty.

Key findings from the report include:

- State general fund spending would increase just 1.0 percent compared to current estimated spending levels under governors' fiscal 2018 budgets.
- States experienced sluggish general fund revenue growth in fiscal 2017 of 2.4 percent, with 33 states reporting collections below budget projections.
- At least 23 states have already made net mid-year budget cuts totaling \$4.9 billion in fiscal 2017.
- General fund revenues are projected to grow 3.1 percent in fiscal 2018 based on governors' budgets.
- States continue to strengthen their reserves, despite slow revenue growth.
- General fund spending on Medicaid grew at an estimated median rate of 5.2 percent in fiscal 2017, with a median growth rate of 4.3 percent projected for fiscal 2018.
- States that expanded Medicaid expect to spend \$8.5 billion from state funds on expansion in fiscal 2018.
- Governors' proposed tax and fee changes would result in a net increase of \$3.7 billion.

[View the Survey.](#)

National Association of State Budget Officers

Staff Contact
Kathryn White
202-624-5949
kwhite@nasbo.org

[State-by-State Coverage and Government Spending Implications of the Better Care Reconciliation Act.](#)

Abstract

The Better Care Reconciliation Act (BCRA) was introduced in the Senate on June 22, 2017, and is now under debate. The bill would eliminate much of the Affordable Care Act. In this report, we present state-by-state estimates of the impact of the BCRA on health care coverage and costs. Nationwide, we find that there would be 24.7 million more uninsured people under the BCRA by 2022. Federal funding for Medicaid, premium tax credits, and cost sharing reductions would be \$140.4 billion lower under the BCRA in 2022, while state Medicaid spending would increase by \$565

million.

[Click here to view map of projected changes in uninsured rate under BCRA](#)

[Click here to view map of projected changes in federal health care spending under BCRA](#)

[Click here to download tables with state-by-state data by adults, children, race, and ethnicity](#)

The Urban Institute

by Linda J. Blumberg, Matthew Buettgens, John Holahan, Bowen Garrett, & Robin Wang

June 28, 2017

Counties and Cash: How to Improve the Management of Cash Transactions.

Workshop Summary

Often, counties use traditional banking structures to conduct financial transactions, such as collecting property taxes or other fees. Yet, a share of county residents and businesses do not have access to such institutions and conduct business in cash. For counties, cash transactions mean higher costs due to the need for face-to-face transactions, the potential for non-secure and unsafe payments, issues with recording and reporting to external authorities and a higher likelihood of mistakes.

At NACo's 2017 Western Interstate Regional Conference, the Counties Futures Lab hosted a training session on strategies counties are using to increase access to financial institutions for their taxpayers to ensure timely and secure payments while simultaneously lowering operating costs. Moderator Doug Lasher, Treasurer, Clark County, Wash., and presenter Cathy Traywick, Treasurer, Cochise County, Ariz., shared their insights on how to best handle cash transactions for their constituents in a world that is increasingly moving toward digital payments.

[Continue reading.](#)

[Workshop Information.](#)

[Printable PDF.](#)

National Association of Counties

Christina Iskandar
Program Director for Knowledge Management
Counties Futures Lab

U.S. DOT Offers Guidance on Public-Private Partnerships.

As debate of the pros and cons of public-private partnerships heightens in light of President Donald Trump's fondness for infrastructure privatization, the U.S. Department of Transportation has offered

a look at the ups and downs of bringing private sector players into the conversation early.

A new (fairly technical) [DOT paper](#) outlines 17 ways to engage the private sector, across three major phases of project development: planning, pre-procurement and post-procurement. During each, the paper suggests, some approaches seem to work well, shortening timelines, fostering information sharing, improving technical and financial innovation, and reducing risk (for companies and taxpayers). Others have mixed results.

Take “unsolicited proposals,” for example — one of four top strategies the paper recommends during the planning phase.

State or local agencies can open their doors to unsolicited proposals for projects or facets of projects. LA Metro, since announcing it would accept them in February 2016, has received 75 on a variety of ideas, not only opportunities for public-private partnerships. Of these, 56 made it through an initial review that indicated the agency could consider the proposal; 16 went on to phase two for a more detailed analysis. Five projects are currently underway, and two more are being recommended for implementation.

In a webinar this week about DOT’s paper, LA Metro’s Chief Innovation Officer Joshua Schank said the decision to open up to unsolicited proposals was made in anticipation of voters passing an indefinite sales tax increase for transportation last November. The agency wanted to involve the private sector in new projects, but hadn’t been successful so far.

“In fact, we’ve struggled to develop P3s that work,” he said. LA Metro has put out requests for proposals or information before and received little enthusiasm. “[Accepting unsolicited proposals] avoids that to some extent. Because it involves the private sector earlier, we know when we go out that there is some interest.”

And though some doubted that the private sector would respond, Schank said, “we have gotten recommendations for things that we might never have considered under other circumstances because people feel free to submit things that don’t take a tremendous amount of effort.”

The downside? It takes a lot of time and effort for the agency to evaluate them all fairly in its promised 60-day time frame.

The DOT paper gives unsolicited proposals a medium-positive score for maintaining or reducing costs, and adding value and fostering innovation. The strategy garners low marks for increasing competition, however: Though a company submitting a proposal still must go through a public bid process, the agency might show bias toward the initial proposer.

What limited evidence exists suggests that unsolicited proposals work best when they can speed up an already planned and environmentally assessed project.

Several are being considered in Los Angeles around the West Santa Ana Branch and Sepulveda transit corridors. In the first instance, the line has been planned and is going through environmental review, but the community is clamoring for faster delivery.

Schank said private companies have also expressed interest in working with the agency on pre-development agreements (PDAs), another early involvement strategy covered in DOT’s paper. Using this approach, contractors would attempt to design a financially feasible plan for a relatively undefined project, and get right of first refusal to be a private partner on it should the agency decide to proceed.

Again, as with unsolicited proposals, the paper notes this approach can reduce competition and fail to decrease risk for the public sector (yet recommends it as a top strategy). PDAs also rank well for adding value and maintaining or reducing cost or schedule, and for decreasing risk for private sector partners.

Donald Cohen, executive director of In the Public Interest policy and research center, says it can be helpful to involve private players early to source ideas, but when they're asked to make financial projections too soon, "you're predisposing the answer."

He points to the Value for Money (VFM) analyses often conducted in advance of large infrastructure projects, and the decision whether to use more expensive private financing (which can be quicker) or tax-exempt public financing. In 2015, he wrote in a Miami Herald op-ed, Indianapolis reviewed the VFM process for a proposed new courthouse and justice center. The city's analysis found that using public financing would cost \$516 million less than a public-private partnership. The private firm that conducted the first VFM found the private option would be cheaper.

"But we've found that in political [situations] when a VFM comes up with a dollar number, that becomes a fact in the discussion," says Cohen. He says it's good to ask the private sector what they can offer in terms of innovation and efficiency, but that doesn't mean projects can't still be publicly financed and owned.

He also cautions that even the idea-gathering phase can tip the scale, as it can promote a feedback loop of potentially misplaced trust. "Once you make the decision you want to do [a project as a public-private partnership] you stop evaluating whether you should do it," says Cohen.

NEXT CITY

BY JEN KINNEY | JUNE 21, 2017

Jen Kinney is a freelance writer and documentary photographer. Her work has also appeared in Satellite Magazine, High Country News online, and the Anchorage Press. See her work at jakinney.com.

[Deloitte: Cybersecurity for Critical Infrastructure.](#)

Cyberattacks on critical infrastructure have grown increasingly sophisticated and effective, so it is important that states expand their risk mindset and take a leadership role in addressing cyber risks. In our new report, [Cybersecurity for critical infrastructure: A growing, highly visible threat calls for state leadership](#), we take a deeper look at the challenges that cyberattacks present and detail how states can better prepare for the threats.

Building an effective program for managing cyber risks will require time, commitment, and close cooperation. Learn how states can be program leaders in driving public-private collaboration for sharing information, raising awareness of roles, and establishing a unified response to cyberattacks on critical infrastructure.

[Black & Veatch: 2017 Water Industry Report.](#)

Water providers are increasingly focused on sustainability and integrated planning to help solve the years-long conflicts between aging infrastructure and a safe, resilient water supply. Black & Veatch's [2017 Strategic Directions: Water Industry Report](#) analyzes how political leadership and collaboration can overcome concerns about costs and customer demand. The report also explores how data analytics, consumer education on infrastructure modernization and a more comprehensive view of sustainability are helping water utilities gain ground on these challenges.

[CDEA Water Finance Resource Center.](#)

Financing water infrastructure is a major challenge and opportunity for communities throughout the country. However, water infrastructure is an extremely broad asset class ranging from drinking and storm water issues to waste water and sewage processing improvements. The development finance toolbox, none the less, provides dozens of financing tools and mechanisms that can be effective in financing this infrastructure. Primarily, three specific tools exist to support water infrastructure - bonds, state revolving loan funds and the new federal credit subsidy program called WIFIA.

[Visit the Resource Center.](#)

[Autonomous Vehicles: A Policy Preparation Guide.](#)

Autonomous vehicles are rolling out on city streets across the country at a rapid pace - much faster than anticipated just a few years ago. While state and federal entities have always played a role in regulating transportation, cities are where this new technology is being deployed now.

National League of Cities latest resource, "[Autonomous Vehicles: A Policy Preparation Guide.](#)" provides an overview of AV technology and answers frequently asked questions for city leaders around AV manufacturers, public policy considerations, municipal coordination, and infrastructure investment.

[Empowering the Public and Nonprofit Sectors with Data and Technology.](#)

Abstract

Local government and nonprofit staff need data and technology skills to regularly monitor local conditions and design programs that achieve more effective outcomes. Tailored training is essential to help them gain the knowledge and confidence to leverage these indispensable tools. A recent survey of organizations that provide data and technology training documented current practices and how such training should be expanded. Four recommendations are provided to assist government agencies, elected leaders, nonprofit executives, and local funders in empowering workers with the necessary training to use data and technology to benefit their communities. Specifically, community stakeholders should collectively work to

- expand the training available to government and nonprofit staff;
- foster opportunities for sharing training materials and lessons;
- identify allies who can enhance and support local training efforts; and
- assess the local landscape of data and technology training.

This brief is part of the [Expanding Training on Data and Technology to Improve Communities](#) project, launched by the National Neighborhood Indicators Partnership and Microsoft's Civic Technology Engagement Group to explore community training on data and technology. Other products include a guide for organizations interested in providing community training, a catalog of trainings from across the country, and a summary of current training content and practices from our survey.

[View the Brief.](#)

The Urban Institute

by Kathryn L.S. Pettit and Maia Woluchem

June 1, 2017

[New Study Identifies the Best Cities for Good Government.](#)

What is good government and which cities practice it? Those are the questions driving a new annual report of U.S. cities.

For the first time ever, the nonprofit Living Cities partnered with Governing to study how cities measure up to their definition of a high-performing government. The authors of the study, which is called "Equipt to Innovate," hope it will help the best ideas and practices spread.

Cities have long been creative problem solvers, but local officials still have trouble sharing information about their experiences and learning from their peers, says Ben Hecht, the CEO of Living Cities.

"There are a thousand flowers of innovation that are blooming," he says, "but they don't really provide you with a roadmap for how to systemically apply those innovations to the core elements of government."

The Equipt report is meant to be a first step in providing that roadmap.

Governing, with the help of researchers at our parent company, e.Republic, invited 321 cities to participate in the study. About 19 percent — 61 — completed the 92-question self-assessment. Researchers at e.Republic also conducted an independent review of cities' performances to make sure the responses squared with publicly available evidence.

The report defines a city as high-performing if it's dynamically planned, broadly partnered, resident-involved, race-informed, smartly resourced, employee-engaged and data-driven. It sheds light on what local officials think their organizations do well and where they believe they need to improve.

Perhaps the biggest improvements needed (and in some cases, being made) appear to be in race-related policies and issues.

Almost all respondents (92 percent) said their human resources departments have plans and initiatives in place to ensure the local government workforce reflects the racial and ethnic makeup of the city. In addition, a majority of respondents (74 percent) said they have training programs around the importance of race in their workplaces.

But by other measures, cities are behind in enacting race-informed policies. Only 16 percent strongly agreed that there was trust in local government among their immigrant and minority communities. A majority of respondents (77 percent) said their cities needed a more equitable provision of services, such as transportation, education and community policing.

In other areas, the responses suggest that most places already meet the definition of a high-performing city. For example, 80 percent said they have up-to-date long-term strategic plans, and a majority said they collect sufficient input from agencies and residents. Almost two-thirds said city spending is based on evidence and oriented toward results. And almost eight in 10 respondents said their cities have some kind of open data portal.

Steven Bosacker of Living Cities says he was pleasantly surprised by how advanced cities appear to be on some of the operational elements, such as strategic planning.

"The survey actually not only renewed my faith but reminded me of how functional local government is, especially compared to state and federal government these days," he says.

On Tuesday, Living Cities and e.Republic named Phoenix the best overall performing city, but nine others received recognition as well: Las Vegas, San Diego, Riverside, Calif.; San Jose, Calif.; El Paso, Texas; Fayetteville, N.C.; San Antonio, Philadelphia and Louisville, Ky.

They also identified the highest-performing city in each of the seven categories (in bold) and five additional cities that were high performers:

- Dynamically planned (**Fayetteville, N.C.**; Boston, Cleveland, the District of Columbia, Las Vegas and Riverside, Calif.)
- Broadly partnered (**Las Vegas**, Kansas City, Mo.; Louisville, Ky.; Philadelphia, Phoenix and Riverside, Calif.)
- Resident-involved (**Albuquerque**, N.M.; Atlanta, Minneapolis, Philadelphia, Providence, R.I.; and Seattle)
- Race-informed (**Seattle**, Grand Rapids, Mich.; Phoenix, Portland, Ore.; Richmond, Va.; and San Jose, Calif.)
- Smartly resourced (**El Paso**, Texas; Boston, Knoxville, Tenn.; San Antonio, San Jose, Calif.; and Virginia Beach, Va.)
- Employee-engaged (**San Antonio**, Denver, Fayetteville, N.C., Las Vegas, Louisville and Minneapolis)
- Data-driven (**Kansas City, Mo.**; El Paso, Texas; Long Beach, Calif.; Louisville, Phoenix and San Diego)

Findings from the study are summarized in a 20-page report that can be found [here](#). Cities that participated will receive private written feedback on how they compare to their peers and how they can improve. Living Cities and e.Republic plan to conduct another round of assessments and hope to document how government performance changes over time.

"This was a pilot year. It's not designed or intended to report perfectly on perfection," says Rhiannon Gainor, director of research at e.Republic. "It's meant to stimulate a national conversation on what good governance is."

[Hidden Debt, Hidden Deficits: 2017 Edition.](#)

A new analysis by Josh Rauh at Stanford University's Hoover Institution – [Hidden Debt, Hidden Deficits: 2017 Edition](#) – says state and local governments' collective unfunded pension liabilities are actually about three times the amount they claim. Rauh, a finance professor who has long been a critic of public pension accounting, arrived at his figure by assigning pension plans a much lower assumed investment rate of return.

Pension plans in 2015 collectively reported about \$1.3 trillion in unfunded liabilities. In other words, they have about 72 percent of the assets they need to meet their estimated total liabilities. That figure assumes plans will earn an average of 7.4 percent each year on their investments.

Rauh, pointing to the wild swings of the stock market and the fact that pensions are putting more of their assets into volatile, alternative investments, says that assumption is too risky. He argues it's more responsible to consider a rate of return closer to what long-term bonds earn: slightly less than 3 percent. Under those assumptions, Rauh says unfunded U.S. public pension liabilities would roughly triple to \$3.8 trillion, or less than half-funded.

The Takeaway: Rauh is arguing for accounting responsibility. And to be sure, the underwhelming returns of pension plans over the last two years bolster his case. Several pension plans have already acknowledged that their investment return assumptions likely won't hold up in the long term and have lowered their assumed rates of return to 7 or 6.5 percent. But to drastically lower return assumptions would be devastating for governments and impair their ability to provide services to constituents.

Rauh even cites those consequences in his research. In the worst example, Illinois in 2015 put a whopping 11 percent of its own revenue into its pension plan. Even though that's a far higher share than other states, Illinois' payment was still short — it actually needed to contribute more than 16 percent. Under Rauh's approach, Illinois would have to contribute more than 23 percent of its revenue to avoid a rise in liabilities. That would dwarf education spending and make pensions second only to Medicaid as the state's highest single expense.

[Stanford Researchers Create “Living Map” of Out-of-the-Box Water Financing Ideas.](#)

Financing for water projects and aging infrastructure is critically needed but hard to come by. Stanford researchers highlight innovative approaches with a “Living Map” of case studies around the country.

Last month, the American Society of Civil Engineers gave the nation's infrastructure a near failing grade and estimated that the country will need to spend \$4.59 trillion by 2025 to bring its infrastructure back up to even a B- level. Water infrastructure is in particular need of renewed investment due to the combined pressures of population growth, urbanization and impacts from climate change.

The problem is finding the money to carry out these critical but expensive projects that include innovative distributed water systems. Now a team of researchers at Stanford has created a ["Living Map"](#) of innovative ways to finance water projects in the United States that they hope will help regions finance upgrades.

"We need a new playbook that embraces a holistic view of our water system and offers new ideas and solutions for our aging infrastructure," said Newsha Ajami, director of urban water policy at Stanford's Water in the West program and leader of the map project. "Integrating distributed water projects such as green infrastructure, wastewater recycling and storm- and graywater reuse into our current infrastructure network can enhance the flexibility and reliability of our water systems."

Federal and state funding for these types of projects is limited, and local entities are usually too cash-strapped to meet current maintenance costs, let alone the costs involved with new projects. Private funding can also be difficult to acquire given the small return on investment and perceived risks of many of these projects.

The Living Map shows case studies of successful innovative water financing efforts around the country designed to be implemented at various scales. The case studies feature a wide variety of mechanisms; for example, some are market-based systems like credit and permit trading used to implement "green infrastructure" projects built to manage stormwater runoff.

Case studies

One example looks at the Stormwater Retention Credit Trading Program in Washington, D.C. The program enables property owners who install green infrastructure to generate credits that can be bought and sold on an open market and used to meet regulatory requirements. This ultimately helps capture stormwater and prevent pollutants from entering the Chesapeake Bay and local waterways.

The map builds on work in a 2016 Water in the West report that created a framework for water project financing with lessons from the electricity sector.

"We wanted to show that not only are these options available and possible in the electricity sector as they were laid out in our 2016 innovative financing report, but that various water utilities are already employing them," said Ajami.

The map will be updated as more case studies of new and different ways of looking at water infrastructure needs come to light, hence the name "Living Map." Ajami encourages stakeholders, researchers and decision-makers throughout the United States working on inventive water financing efforts to partner with her and the team to add projects to the map.

"The fact that it's hard to access funding for distributed and unconventional water projects is not an excuse not to act," Ajami said. "The Living Map gives a visual understanding of what is happening throughout the country and how grants, rebates, fees and other innovative governance structures are used to fund alternative water projects. It supports the view that there is not a one-size fits all approach to funding infrastructure and we as a community need a portfolio of financing tools and options for the water sector."

Stanford News

By Devon Ryan

May 18, 2017

Newsha Ajami also co-leads the Urban Water Systems & Institutions Thrust at the NSF-ReNUWIt Engineering Research Center, and is a member of the Bay Area Regional Water Quality Control Board.

[FAF Issues 2016 Annual Report: “Better Standards. Better-Informed Decisions.”](#)

Norwalk, CT—May 18, 2017 — The Financial Accounting Foundation (FAF) today posted its [2016 Annual Report](#) to the FAF website. The report is available in print, [PDF](#), and [interactive digital](#) versions.

The theme of the 2016 Annual Report is “Better standards. Better-informed decisions.” It highlights the standard-setting activities of the FASB and the GASB in 2016—and how they contribute to better-informed decisions by investors, lenders, citizens, and others who rely on high-quality financial reporting. The report also looks at what the FAF did to support the Boards’ efforts and to ensure a robust, inclusive standard- setting process.

The 2016 Annual Report also features:

- Letters from FASB, GASB, and FAF leaders
- A special “How We’re Funded” section that provides a broad overview of FASB, GASB, and FAF funding sources, and
- Complete 2016 management’s discussion and analysis and audited financial statements (previously posted on the FAF website in April 2017).

The interactive, tablet-friendly version of the annual report also showcases a new video , “The Importance of GAAP,” aimed at non-technical audiences. It also includes listings of all FAF, FASB, and GASB advisory groups and their members, including the Private Company Council and the Emerging Issues Task Force.

Those interested in receiving a print copy of the report may request one by emailing Christine Klimek clklimek@f-a-f.org. Print copies are available in limited quantities and will be distributed on a first-come, first-served basis.

[The Future of Economic Development: Using Health Care as an Economic Driver, Public-Private Partnerships as a Platform to Further Development, and Minority Participation as a Path Forward in a More Diverse Mississippi.](#)

[The Future of Economic Development: Using Health Care as an Economic Driver, Public-Private Partnerships as a Platform to Further Development, and Minority Participation as a Path Forward in a More Diverse Mississippi.](#)

by Tray Hairston | Butler Snow

Mississippi College Law Review

[SIFMA: Capital Markets in the U.S.](#)

Capital markets are the bedrock foundation of our nation's economy. Our capital markets recognize and drive capital to the best ideas and enterprises, enabling workers to save for retirement, students to pay for their education, businesses to grow, and communities to finance sustainable development. Explore the companies and municipalities in your state that are accessing the capital markets to drive economic growth.

[View All States.](#)

[SIFMA Finalizes Muni Issue Price Model Documents.](#)

New York, NY, May 1, 2017 – SIFMA today released the final versions of its municipal security issue price model documents. The documents were developed in an effort to aid industry market participants in compliance with the new Treasury Department issue price rules for municipal securities, which become effective on June 7, 2017. SIFMA issued the documents for industry comment in March 2017 and is pleased to provide the final versions for broad industry use today.

“We appreciate the industry’s valuable input on the exposure draft of the model documents, said Leslie Norwood, managing director, associate general counsel and co-head of SIFMA’s Municipal Securities Division. “Industry feedback was essential to making the documents as useful as possible, given that they are designed to make it easier for our members to assist their issuer clients in complying with the issue price rules, in understanding the expectations of market participants while promoting transparency of sales terms for both issuers and underwriters, and to help reduce legal costs and regulatory risk while increasing legal certainty, for the benefit of all market participants.”

The model documents include model riders to the Master Agreement Among Underwriters, Master Selling Group Agreement, Retail Distribution Agreement, Model Bond Purchase Agreement and the Notice of Sale.

Major changes to the documents from exposure draft to final versions include refining the definition of a “related party”, clarifications of dealer obligations for those who are members of the selling group and/or party to a retail distribution agreement, and noting that, in the bond purchase agreement, the issue price certificate may require that the Underwriter provide reasonable supporting documentation which is expected to be the pricing wire or wires or equivalent communications. Notice of sale options for competitive sales were clarified and expanded.

The model documents are available [here](#).

Release Date: May 1, 2017

Contact: Katrina Cavalli, 212.313.1181, kcavalli@sifma.org

MSRB Municipal Market Stats.

Number of muni trades in 1Q 2017 highest in more than three years.

[See MSRB's new Municipal Market stats.](#)

U.S. Municipal Credit Report, First Quarter 2017

The municipal bond credit report is a quarterly report on the trends and statistics of U.S. municipal bond market, both taxable and tax-exempt. Issuance volumes, outstanding, credit spreads, highlights and commentary are included.

Summary

According to Thomson Reuters, long-term public municipal issuance volume totaled \$86.5 billion in the first quarter of 2017, a decline of 13.4 percent from the prior quarter (\$99.9 billion) and a decline of 9.5 percent year-over-year (y-o-y) (\$95.5 billion). Volumes were generally in line with the 10-year average of \$82.6 billion. Including private placements (\$3.0 billion), long-term municipal issuance for 1Q'17 was \$89.4 billion. Refunding volumes dropped sharply in the first quarter to \$33.5 billion, representing 38.7 percent of issuance.

Tax-exempt issuance totaled \$76.8 billion in 1Q'17, a decline of 15.4 percent q-o-q and a decline of 12.9 percent y-o-y. Taxable issuance totaled \$6.9 billion in 1Q'17, a decline of 4.6 percent q-o-q but an increase of 5.0 percent y-o-y. AMT issuance was \$2.8 billion in 1Q'17, a sharp increase of 51.6 percent q-o-q and nearly triple volumes y-o-y.

By use of proceeds, general purpose led issuance totals in 1Q'17 (\$22.3 billion), followed by primary & secondary education (\$18.4 billion) and higher education (\$9.2 billion). Refunding volumes dipped sharply to comprise 38.7 percent of issuance in 1Q'17 from 47.7 percent in the prior quarter and 52.7 percent year-over-year.

[View the Report.](#)

Following the Money 2017: Special Districts

Executive Summary

Citizens' ability to understand how their tax dollars are spent is fundamental to democracy. Budget and spending transparency holds government officials accountable for making smart decisions, checks corruption, and provides citizens an opportunity to affect how government dollars are spent.

"Special districts" are a type of government agency that exist outside of traditional forms of general purpose local or state governments, and serve key governmental functions such as public transit or housing. However, special districts are poorly understood by the public and often do business without adhering to modern standards of government budget or spending transparency. The lack of transparency and accountability of many special districts has caused concern among some state

agencies and government watchdogs, as it can contribute to an atmosphere conducive to lowered efficiency and potential misconduct.

A review of 79 special districts' online financial transparency shows that while a few districts are meeting the goals of "Transparency 2.0" - a standard of comprehensive, one-stop, oneclick budget accountability and accessibility - the vast majority do little to inform citizens about how they spend money. To empower and engage the public, enable citizen oversight of all branches of government, and improve the efficiency with which they operate, special districts, along with local and state governments, should expand the amount and improve the quality of spending data that are made available to the public online.

Special districts are a significant form of government, and should be held to strong financial transparency standards.

- Nationwide, there are more than 38,000 special districts, many of them charged with fulfilling key governmental functions, that spend more than \$200 billion annually.
- The creation of special districts can enable large expenditures to occur mostly or entirely off the budgets of state or local general purpose governments. According to a study by MASSPIRG Education Fund from 2010, revenues from special districts in Massachusetts amounted to at least \$8.76 billion - equal to one third of the state's general budget.
- Special districts are not held to the same transparency and accountability standards as other types of government. A 2012 Kentucky Auditor's report found that in 2011 only 60 percent of special districts required to submit budgets to the Department for Local Government's office did so, and many special districts were not even aware of their legal and financial reporting obligations.

The nation's most transparent special districts are often those in states that have taken action to require or encourage the posting of financial information online.

- The Texas Comptroller of Public Accounts offers a Transparency Stars program for local governments, including special districts, excelling in financial transparency. Of the seven leading special districts evaluated in this report, three are from Texas and all three have received at least one Transparency Star from the Comptroller.
- In Illinois, legislation requiring the creation of a transparency portal for the Chicago area's transportation districts has resulted in an easy-to-use resource for citizens seeking to access financial information. One district included in the legislation was evaluated in our report, and received a leading score.
- The Kentucky Department for Local Government was established as the central reporting agency for all state special districts in 2013, and publishes a public portal of special district budget and spending information. The one special district from Kentucky evaluated in this report also received a leading score.

Our snapshot of special district online financial practices shows that many of these governmental bodies are not meeting standards for government transparency.

In this report, we evaluated the online financial transparency practices of 79 special districts nationwide, chosen to represent a diversity of functions and states. Of those 79 special districts:

- Seven special districts, 9 percent of those evaluated in the report, received leading scores.
- 30 special districts, 38 percent, received lagging scores.
- 42 special districts, 53 percent, received failing scores, having failed to meet basic financial transparency criteria.
- Of the failing districts, 11, or 14 percent of districts evaluated, received a score of zero, having

made little to no evident effort to provide online financial transparency information.

Special districts varied greatly in providing financial transparency information online:

- 30 special districts, 38 percent of those evaluated in the report, have posted the most recently approved budget document on their website.
- 24 special districts, or 30 percent, currently publish a comprehensive annual financial report on their website in accordance with the Government Accounting Standards Board's specifications.
- Eight special districts, or 10 percent, publish full annual salary ranges by job title.
- Seven special districts, or 9 percent, provide information on checkbook-level spending, and only two of those district websites allow users to view the information without having to download data.

There are many opportunities to improve online financial transparency.

Districts that already provide checkbook spending data still have room to improve.

No district in our sample has a thorough "completeness statement" alerting citizens to the specific exclusions from checkbook-level spending information.

Only the Chicago Transit Authority, via the Regional Transit Authority's Transparency Portal, hosts checkbook data on a portal with a full search function.

Special districts may be able to take advantage of existing local or state transparency portals to expand the amount of information they share with the public. The Utah Transit Authority, for example, provides revenue and itemized expenditure data on the Utah state checkbook website.

Districts should make available the most recently approved budget document on their website.

Publishing detailed categories of revenues and expenditures allows for citizens to easily find how a district is funded, and what the district plans to accomplish in a fiscal year.

In addition, publishing past years' budgets allows for comparison in expenditure levels between fiscal years, ultimately giving citizens the ability to identify unusual trends or changes in spending categories.

Special districts should aspire to provide audited financial statements in accordance with the Government Accounting Standards Board's specifications, even if state or local law does not require them to do so.

Special districts that have annual financial reports hosted on an external site, such as that of a state auditor's office, should offer direct links to the documents from their own websites.

In particular, special districts such as hospitals that issue municipal bonds and report financials to the Electronic Municipal Market Access database (EMMA) should offer direct links to documents hosted on the database, if not publish those documents directly on their own organization's website. Housing authorities should publish their annual plans with capital funds information as reported to the U.S. Department of Housing and Urban Development on their agency websites.

[Download Report.](#)

RELEASED BY: U.S. PIRG EDUCATION FUND AND FRONTIER GROUP

RELEASE DATE: TUESDAY, APRIL 25, 2017

USAFacts: This Goes Way Beyond Open Data.

You might not peg former Microsoft CEO and current owner of the NBA's Los Angeles Clippers as a government data geek. But Steven Ballmer stepped into that role in a grand scale this week when he unveiled his privately funded, years-long project to help citizens easily track how government spends their money.

Called [USAFacts](#), the website contains federal, state and local aggregated data on revenue and spending, as well as on debt, population, employment and pensions. Want to know about pension debt? Two quick searches reveal that unfunded liabilities in state and local retirement systems have more than quadrupled since 2000. At the same time, the median age in the country has increased by 2.5 years.

As a businessman used to the corporate world, Ballmer wants to make government financial reports more readable. To that end, the site has introduced the first government "[10-K report](#)" — the private sector's version of an annual financial report. It aggregates data from all U.S. governments and gives progress reports on government programs, provides financial balance sheets and gives data on key economic indicators.

The Takeaway: Ballmer says USAFacts is not meant to insinuate that governments should be more like businesses. But the creation of this data trove does speak to a growing desire among the business community and citizens for better access to uniform financial data. No two governments are alike in how they present and deliver their financial data, to say nothing of the amount of time in which it takes them to do so. That makes any data compilation incredibly burdensome. Now, at least on a national basis, that headache has been eliminated.

What's more, shining a light on the real numbers behind government has the potential to change peoples' assumptions about it. By way of explanation, Ballmer looked up how many people work for government in the U.S. The answer: nearly 24 million. When people hear that, they tend to say, "Those damn bureaucrats!" he told The New York Times. But a look at the data may elicit a different response. Almost half are educators. Active-duty military and health workers represent huge blocks as well. Now, "your tax dollars are helping somehow to pay 24 million people — and most of these people you like," Ballmer said.

GOVERNING.COM

BY LIZ FARMER | APRIL 21, 2017

Taking Stock of the Community Development Block Grant.

Abstract

The Community Development Block Grant (CDBG), administered by HUD, is the most sizable, stable, and comprehensive support for community and economic development in the US. For many jurisdictions, it is a steady source of funding dedicated to benefiting low-income individuals and communities, which allows them to focus on implementation rather than fundraising. However, the program faces considerable challenges, and real-dollar funding for the core program has shrunk tremendously over its lifetime. This brief takes stock of the evidence surrounding the CDBG

program, and makes recommendations for how it should look moving forward.

[View the Report.](#)

The Urban Institute

by Brett Theodos, Christina Plerhoples Stacy, & Helen Ho

April 13, 2017

Evaluating Pension Reform Options with the Public Pension Simulator.

Covering 14 million state and local government employees, public pension plans typically provide lifetime retirement benefits based on years of service and the salary earned near the end of a career. These pensions provide meaningful retirement security to employees covered by a plan for a full career, but offer few benefits to shorter-term employees, a drawback that is becoming increasingly problematic as people change jobs more frequently.

Moreover, many of these plans face serious financial problems, with only a handful setting aside enough funds to cover promised benefits. Conservative estimates place the shortfall at about \$1 trillion nationally, but the actual amount may be several times higher. The public contributions necessary to close the funding gap would strain many state and local governments, requiring higher taxes or cutbacks in other services.

Consider Pennsylvania.

Pennsylvania public school teachers qualify for a lifetime retirement pension tied to their salary and years of service once they've worked long enough and have reached the plan's retirement age.

Rules about how much teachers must contribute to the plan, when they can start collecting their pensions, and how large their annual pensions are depend on when a teacher was hired. Teachers hired after July 31, 2011, generally receive smaller pensions than those hired between July 31, 2001, and July 31, 2011.

Furthermore, although Pennsylvania's teacher pension plan is large—in 2015, it covered 260,000 employees and 242,000 retirees and their survivors and held assets worth \$51.9 billion—its finances have been deteriorating steadily for nearly a decade.

In 2008, Pennsylvania's pension plan held enough assets to cover 85 percent of future pension obligations. After the Great Recession, that number fell to 70 percent. By 2015, only 61 percent of future pensions were covered, despite an improving economy. To cover these shortfalls, employers must now contribute 30 percent of payroll to the pension fund, creating significant financial burdens for local school districts.

To help legislatures ease these burdens while protecting teachers' retirement security, we used the Urban Institute's new [Public Pension Simulator](#) to estimate how potential reforms to Pennsylvania's teacher pension plan might affect employer costs and teacher benefits. Our report looks at various reform options, including eliminating early retirement benefits, raising the normal retirement age, changing the benefit formula, and eliminating cost-of-living adjustments (COLAs) provided to retirees. The results show that eliminating the early retirement option would significantly reduce

costs while safeguarding pensions received by teachers with shorter careers.

Teacher Pensions

The current pension plan enables long-term teachers to receive nearly as much income when retired as when they were working. Shorter-term teachers, however, receive smaller pensions. Teachers who were hired at age 22 and who have worked for 35 years can expect pensions worth 12 times more over a lifetime than those with 20 years of service and 44 times more than those with 10 years of service.

Teachers hired at older ages can generally replace a larger share of their inflation-adjusted earnings in retirement than teachers with the same number of completed service years who were hired at younger ages because younger hires must wait years to collect their pension as inflation erodes its value.

Employer Costs

The costs of providing a pension are much lower for Pennsylvania teachers hired today than for teachers hired before 2011, reflecting the sharp benefit cuts passed by the state legislature that year.

How much employers pay for a teacher's pension varies depending on when a teacher joins the plan and how long he or she works. Costs escalate quickly with additional years of teaching.

Employer costs drop sharply, however, for teachers who teach for more than 35 years. Each additional year of teaching means one less year collecting a pension, because teachers cannot collect until they separate.

Employer pension costs for a teacher hired at age 22 range from 1 percent of career salary if she separates after 25 years of service to 31 percent if she separates after 35 years to 20 percent if she separates after 45 years.

The Plan Ahead

Results for Pennsylvania teachers highlight the dramatic disparities in pensions between short-term and long-term teachers and between those hired at relatively young ages and at relatively old ages.

Eliminating the early retirement option could significantly reduce large pensions now received by many long-term employees, while safeguarding the more meager pensions received by employees with shorter careers. These savings could be devoted to raising pension benefits for shorter-term employees.

[Download the full report.](#)

The Urban Institute

by Richard W. Johnson & Owen Haaga

April 10, 2017

Pew Report: State Public Pension Funds Increase Use of Complex Investments.

Overview

State and locally run retirement systems currently manage over \$3.6 trillion in public pension fund investments, most of which are held by states. Broadly, half of these assets are invested in stocks; a quarter in bonds and cash; and another quarter in what are known as alternative investments, such as private equity, hedge funds, real estate, and commodities.

Although governments and employees contribute to pension funds, investment earnings on plan assets are expected to pay for about 60 percent of promised benefits. In a bid to boost investment returns and diversify investment portfolios, public pension plans in recent decades have shifted funds away from low-risk, fixed-income investments such as government and high-grade corporate bonds. During the 1980s and 1990s, plans significantly increased their reliance on stocks, also known as equities. And over the past decade, funds have increasingly turned to alternative investments to achieve investment return targets.

Greater investment in equities and alternatives can provide higher financial returns but also bring heightened volatility and risk of shortfalls. Most funds exceeded their investment return targets during the bull market of the 1990s but then suffered losses during the volatile financial markets of the 2000s—leading to higher pension costs for state and local budgets. The volatility inherent in public funds' investment strategies can be seen in more recent results as well, with large funds posting fiscal year gains of over 12 percent in 2013 and 17 percent in 2014, but only 2 percent in 2012, 4 percent in 2015, and 1 percent in 2016.

The shift toward more complex investment vehicles has also brought higher investment fees. State funds reported paying more than \$10 billion in fees and investment-related costs in 2014, which amounted to their largest expense. Those fees, as a percentage of assets, have increased by about 30 percent over the past decade, a boost closely correlated with the rising use of alternative assets, which has more than doubled since 2006. Additionally, state funds are paying billions of dollars in unreported performance fees associated with these alternative investments.

Accounting and disclosure practices also vary widely among pension plans and have not kept pace with increasingly complex investments and fee structures, underscoring the need for additional public information on plan performance and attention to the effects of investment fees on plan health. Full and accurate reporting of asset allocation, performance, and fee details is essential to determining public pension plans' ability to pay promised retirement benefits. With more than \$3.6 trillion in assets—and the retirement security of 19 million current and former state and local employees at stake—sound and transparent investment strategies are critical.

Research on U.S. public pension investments published in 2014 by The Pew Charitable Trusts highlighted the long-term shift toward stocks and more recent increases in the use of alternative investments. This report provides updated information on asset allocation, performance, and reporting practices for all 50 states and looks deeper at the use of alternative investments by public pension funds. Specifically, this report finds:

- Government sponsors should consider investment performance both in terms of long-term returns and cost predictability. From this perspective, many fund portfolios are highly correlated with the up-and-down swings of the stock market, and expose state budgets to considerable risk and uncertainty.
- Investment performance varies widely among public pension funds, with only two of the funds

examined exceeding investment return targets over the past 10 years. Although these results reflect the losses that occurred at the onset of the Great Recession, more recent performance, low interest rates, and forward-looking economic forecasts point to the need to closely examine long-term investment return targets.

- The use of alternative investments varies widely—from none to over half of fund portfolios. While examples exist of top performers with long-standing alternative investment programs, the funds with recent and rapid entries into alternative markets—including significant allocations to hedge funds—reported the weakest 10-year returns. Although longer time horizons will allow better evaluation of these investment strategies, funds and policymakers should carefully examine risks, returns, and fees in the meantime.
- The data do not reveal a best or one-size-fits-all approach to successful investing, but there is a uniform need for full disclosure on investment performance and fees. In 2014, more than a third of state-sponsored funds reported performance figures before deducting the costs of investment management. In addition, unreported investment fees—primarily performance payments made to private equity managers—totaled more than \$4 billion in 2014, or about 40 percent above the \$10 billion in reported investment expenses for that year.

Data sources

To examine these changing investment practices across the 50 states, The Pew Charitable Trusts used three sources covering the 73 largest state-sponsored pension funds, which collectively have assets under management of over \$2.8 trillion (about 95 percent of all state pension fund investments):

- Data collected from state-sponsored plans' Comprehensive Annual Financial Reports, pension plan actuarial valuations, and other relevant documents published by individual public pension plans from 1992 to 2014, with a primary focus on asset allocation, performance, and fees from 2006 to 2014. In addition, performance data from 2015 were collected from plan documents.
- The U.S. Federal Reserve Financial Accounts of the United States data, which include aggregate economic and investment data on public pensions from 1952 to 2015.
- The Wilshire Trust Universe Comparison Service (TUCS) performance comparison data, reported quarterly from 1991 to 2016.

Together, these data sets provide a 60-year picture of aggregate investment trends and a detailed look at investment practices from 2006 to 2014 across the vast majority of state public pension funds.

Important terms

Three main types of investments are discussed in this report:

- **Fixed-income investments.** Can include domestic or international bonds issued by governments or corporations. Because they generate predictable streams of income paid at designated times, fixed-income investments are generally considered lower-risk than other investments.
- **Equities.** Stocks, held by investors, that represent partial ownership of a company; can be domestic or international. Equities do not guarantee a return and generally have the potential for both higher returns and greater losses than bonds, making them typically riskier than fixed-income investments.
- **Alternative investments.** Generally include private equity, hedge funds, real estate, and commodities, and typically lack an established public exchange, have low liquidity, and can be more difficult to value than stocks or bonds. Alternative investments typically carry higher fees than fixed-income investments or equities and can be used to diversify investment portfolios or to

achieve higher rates of return—although often at higher levels of risk.

The glossary at the end of the report includes a more complete list of definitions; the appendix includes a detailed explanation of the common types of alternative investments.

[Download the full Report.](#)

The Pew Charitable Trusts

April 12, 2017

[Public Plans Database.](#)

The [Public Plans Database](#) is developed and maintained through a collaboration of the Center for Retirement Research at Boston College (CRR), the Center for State and Local Government Excellence (SLGE), and the National Association of State Retirement Administrators (NASRA).

CRR and SLGE established a partnership in 2007 to:

1. Produce research on state and local pension plans and the retirement prospects of state and local workers;
2. Disseminate research findings broadly; and
3. Develop and make available comprehensive data on state and local pensions and retiree health benefits.

These data, covering both defined benefit and contribution plans, are updated regularly from information available in the most recent Comprehensive Annual Financial Reports (CAFRs) and Actuarial Valuations (AVs) and have been expanded over time.

The National Association of State Retirement Administrators, which has been collecting and sharing public plan data since 2001, supports the partnership by providing review and assistance on the development of data models, validation of data, and development and administration of surveys.

The Public Plans Database has:

- Plan-level data for over 160 state and local pension plans;
- Over 100 variables; and
- Annual data since 2001

...and allows users to:

- Browse “quick-fact” pages containing key statistics on individual plans and in the aggregate;
- Search data in real-time and produce customized tables by selecting specific variables; and
- Download the raw data to conduct in-depth analysis.

[Download our brochure](#) to learn about PPD’s new and expanded features.

The Future of the Great Lakes Region: Urban Institute Report

Abstract

The Great Lakes region—home to 50 million people in Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin—has become a fixture in our national political discourse. Many of the country's social, economic, and political challenges are being played out here.

Despite a decade of job loss, demographic shifts, and falling household incomes, evidence suggests the area has strong foundations capable of sustaining future growth and prosperity. By building on these strengths, the Great Lakes region can rewrite its Rust Belt narrative as a story of resurgence.

Outlined below are key findings from the Urban Institute report *The Future of the Great Lakes Region*, which offers a glimpse into the region's past and future challenges and promise. This report provides a comprehensive analysis of recent economic, demographic, and social trends in the region, coupled with projections on how those trends will play out between now and 2040.

Manufacturing collapse, but steady population and economic growth

- From 2000 to 2010, manufacturing jobs in the region fell 35 percent, a loss of nearly 1.6 million jobs.
- Overall, though, the region added 1.2 million jobs from 2000 to 2015. But the growth was mainly in low-wage jobs.
- Sixteen percent of Great Lakes residents were ages 65 and older in 2015. From 1990 to 2015, the region's white and native-born population was stable or declined, but African American, Hispanic, other non-white, and foreign-born populations grew rapidly. The region is still less diverse than other states were in 2000.

Gradual population growth and labor force stabilization

- By 2040, the region is expected to grow by 3.2 million people. Births will outnumber deaths until around 2030.
- Standing at 8 million today, the senior population will reach 13 million by 2040. Younger age groups will shrink over this period, however, because of out-migration and lower birth rates.
- The labor force will shrink because of early retirement and out-migration of workers in their 30s and 40s, but young people will continue to enter the labor force.
- Although fewer manufacturing jobs exist, remaining industries will still be a major source of employment and high wages.

Challenges and promise

- From 2000 to 2010, median household incomes fell more dramatically in five of the six Great Lakes states than in the entire United States.
- More workers will have associate's and four-year college degrees, but this increase will be held back by disparities between African Americans and Hispanics on one hand and whites and Asians on the other.
- In addition to racial and economic segregation, demographic change and economic stress have reduced the vitality of rural, suburban, and urban communities.

Toward future prosperity

To improve the quality of life and economic mobility for Great Lakes residents, decisionmakers should

- Encourage young families with children to stay in the region to sustain population levels through more targeted investments;
- Welcome and integrate immigrants and their children into the community;
- Prepare young adults to enter the labor force; and
- Ensure workforce development systems upgrade worker skills, because manufacturing will continue to be a major source of jobs and high-wage employment.

[Read the full report.](#)

The Urban Institute

by Rolf Pendall, Erika C. Poethig, Mark Treskon & Emily Blumenthal

March 23, 2017

[SIFMA Releases Muni Issue Price Model Documents for Industry Comment.](#)

New York, NY, March 30, 2017 – SIFMA today released draft municipal security issue price model documents in an effort to aid industry market participants in compliance with the new [Treasury Department issue price rules](#) for municipal securities, which become effective on June 7, 2017.

“The issue price model documents will help reduce legal costs and regulatory risk while increasing legal certainty,” said Leslie Norwood, managing director, associate general counsel and co-head of SIFMA’s Municipal Securities Division. “They are designed to make it easier for our members to assist their issuer clients in complying with the issue price rules and in understanding the expectations of market participants while promoting transparency of sales terms for both issuers and underwriters.”

The draft model documents include model riders to the Master Agreement Among Underwriters, Master Selling Group Agreement, Retail Distribution Agreement, Model Bond Purchase Agreement and the Notice of Sale.

SIFMA welcomes industry comments on the model documents between now and April 12, 2017, after which the documents will be finalized, issued to SIFMA members and posted on SIFMA’s website for broad industry use.

The model documents are available [here](#).

Release Date: March 30, 2017

Contact: Katrina Cavalli, 212.313.1181, kcavalli@sifma.org

[MSRB Municipal Advisor Review - Spring 2017](#)

[MSRB Municipal Advisor Review - Spring 2017](#)

NFMA Recommended Best Practices in Disclosure for Charter School Debt Offerings.

The Disclosure Committee of the National Federation of Municipal Analysts is pleased to release the *Recommended Best Practices in Disclosure for Charter School Debt Offerings*.

To view the paper, [click here](#).

This RBP, like others the NFMA has produced, may also be found under Resources, Best Practices in Disclosure as its permanent home on the [NFMA website](#).

CDFA Bookstore.

The Council of Development Finance Agencies Bookstore includes such titles as:

- **Practitioner's Guide to Economic Development Finance 2nd Edition**
- **Tax Increment Finance Best Practices Reference Guide 2nd Edition**
- **Innovation Finance Reference Guide**
- **Tax Credit Finance Reference Guide**
- **Revolving Loan Fund Reference Guide**
- **Advanced Tax Increment Finance Reference Guide**
- **Development Bond Finance Reference Guide**
- **Advanced Bond Finance Reference Guide**
- **Federal Financing Reference Guide**

[Browse the Bookstore.](#)

GASB Issues Omnibus Statement Addressing a Broad Range of Practice Issues.

Norwalk, CT, March 20, 2017 — The Governmental Accounting Standards Board (GASB) today issued guidance addressing several different accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements.

The issues covered by [GASB Statement No. 85, Omnibus 2017](#), include:

- Blending a component unit in circumstances in which the primary government is a business-type activity reporting in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension and other postemployment benefits (OPEB) liabilities and related expenditures recognized in financial statements prepared using the current financial resources measurement focus

- Recognizing on-behalf payments for pensions or OPEB in employer financial statements, and
- Simplifying certain aspects of the alternative measurement method for OPEB.

Statement 85 also addresses issues similar to those covered in Statements No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 82, *Pension Issues*, including:

- Presenting payroll-related measures in required supplementary information by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB, and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The provisions of Statement 85 are effective for periods beginning after June 15, 2017. Earlier application is encouraged.

[City Rights in an Era of Preemption: A State-by-State Analysis.](#)

In a new report, the National League of Cities finds that states limit city power through preemption in a number of policy areas, ranging from labor protections to taxing authority.

Preemption is the use of state law to nullify a municipal ordinance or authority. In some cases, preemption can lead to improved policy statewide. However, preemption that prevents cities from expanding rights, building stronger economies, and promoting innovation can be counterproductive when decision-making is divorced from the core wants and needs of community members.

[View or download the full report.](#)

National League of Cities

February 16, 2017

[ASCE's 2017 Infrastructure Report Card.](#)

The *2017 Infrastructure Report Card* reveals that we have made some incremental progress toward restoring our nation's infrastructure. But it has not been enough. As in 2013, America's cumulative GPA is once again a D+.

The 2017 grades range from a B for Rail to a D- for Transit, illustrating the clear impact of investment – or lack thereof – on the grades. Three categories – Parks, Solid Waste, and Transit – received a decline in grade this year, while seven – Hazardous Waste, Inland Waterways, Levees, Ports, Rail, Schools, and Wastewater – saw slight improvements. Six categories' grades remain unchanged from 2013 – Aviation, Bridges, Dams, Drinking Water, Energy, and Roads.

The areas of infrastructure that improved benefited from vocal leadership, thoughtful policymaking, and investments that garnered results. These improvements demonstrate what can be accomplished when solutions that move projects forward are approved and implemented.

[Interactive Database from SIFMA Research: Capital Markets in Your State.](#)

View and download state-by-state data on corporate, equity and municipal issuance; top public companies; securities industry employment; and more. We invite you to explore this interactive database to find the companies and municipalities in your state that are accessing the capital markets to drive economic growth.

[View the database.](#)

[The New Urban Fiscal Crisis Finance, Democracy, and Municipal Debt.](#)

Abstract

Numerous U.S. cities suffered immense fiscal strain following the subprime mortgage crisis and financial crash of 2007-8. Diminished revenues, tightened credit, and speculative financing that went bad in the aftermath fueled widespread fiscal distress on the local scale. Although the current moment resembles fiscal crises that crested in cities in the 1970s-90s, two factors distinguish the current period. First, municipal affairs have become thoroughly financialized—dominated by speculative securities and volatile debt arrangements—such that local crisis can no longer be understood apart from financial market instability. Second, local fiscal politics have become increasingly removed from democratic oversight and control. This de-democratization hinders the capacity of political communities to reregulate markets and rebuild urban communities. An analytic model derived from the work of Hyman Minsky and Karl Polanyi emphasizes how cities become ensnared in a “financial instability” cycle and how communities seek to protect themselves by way of the “double movement.”

[Download the full report.](#)

L. Owen Kirkpatrick

First Published February 9, 2016

[MSRB Publishes Annual Fact Book of Municipal Securities Market Data.](#)

Washington, DC - Last year saw the highest dollar volume of municipal securities transactions in any year since 2012, according to the new Fact Book published annually by the Municipal Securities Rulemaking Board (MSRB). In 2016, municipal securities trading volume reached \$3.14 trillion, 30% higher than last year. Municipal securities par trading volume declined an average 9% annually between 2012 and 2015.

The MSRB's Fact Book provides comprehensive and historical statistics on municipal market trading patterns, among other data. In 2016, the average size of a municipal securities transaction was \$335,017, up 28% from a year earlier. Transactions of more than \$1,000,000 made up 76% of the \$3.14 trillion traded in 2016 while transactions of \$100,000 or less account for 80% of the 9.36

million trades in 2016.

[Access the 2016 Fact Book.](#)

The Fact Book also documents the number and type of primary market and continuing disclosures submitted to the MSRB by municipal market participants. Last year's 162,000 continuing disclosure submissions reflected the second consecutive annual decline in submissions after the number peaked following the Securities and Exchange Commission's Municipalities Continuing Disclosure Cooperation Initiative, which addressed securities law violations by municipal issuers and underwriters of municipal securities related to information in bond offering documents about past compliance with continuing disclosure obligations. The initiative boosted the number of continuing disclosures to a high of 175,000 in 2014.

All data in the Fact Book are based on information submitted to the MSRB by municipal securities dealers, issuers and those acting on their behalf. Some of the data in the Fact Book can be accessed digitally on the MSRB's Electronic Municipal Market Access (EMMA®) website, which allows users to view trading and new issuance statistics for different date ranges, types of trades and securities. Daily and historical summaries of trade data based on security type, size, sector, maturity, source of repayment and coupon type are housed in [EMMA's Market Statistics section.](#)

The MSRB promotes market transparency and access to real-time, municipal market bond information by collecting and publicly disseminating information through EMMA and other transparency systems.

Date: March 6, 2017

Contact: Jennifer A. Galloway, Chief Communications Officer
202-838-1500
jgalloway@msrb.org

[MSRB 2016 Fact Book.](#)

The MSRB's newly published [2016 Fact Book](#) highlights municipal securities market facts and figures.

[NFMA Municipal Analysts Bulletin.](#)

[Vol. 27, No. 1](#) of the National Federation of Municipal Analyst's newsletter, *The Municipal Analysts Bulletin*, is now available.

[PWC State Financial Position Index and Competitiveness Posture Report.](#)

Overview:

PwC released the State Financial Position Index (SFPI) and competitiveness posture report in 2015

that shed light on the actual and relative financial position and financial posture of states so that stakeholders will have a better understanding of where their state stands as compared to others. We have updated the rankings of the relative financial condition and competitive posture of the 50 states in the United States.

The rankings are based on financial information contained in the audited financial statements for each state for Fiscal 2015 as summarized by the Institute for Truth in Accounting, and a composite ranking of each state's competitive posture in 2016 based on independent assessments by CEO Magazine, CNBC and Forbes. The report also includes disclosure of whether each state had a net positive or negative migration for the period July 1, 2015-June 30, 2016 according to the US Census Bureau.

The overall rankings for the states did not change dramatically from the prior year. Most of the states with better relative financial positions also rank highly in competitiveness and are net inbound states. Conversely, most of the states with a poor relative financial positions rank low in competitiveness and are net outbound states. As a result, the higher ranked states generally are better positioned for the future while the lower ranked states need to engage in a range of transformational reforms in order to help create a better future. The single largest challenge for most of the lower ranked states is unfunded pension and retiree health care obligations.

[Access the report.](#)

[Fitch Airport Data Map.](#)

Compare Airports by Size, Ratings, and Carrier Hub

Our new [airport data map](#) details the financial profiles of Fitch-rated airports in North America using an interactive visualization.

- Compare airports by size and type
- Filter by rating category to identify peers
- View top hubs by airline carrier

[SIFMA U.S. Municipal Credit Report, Fourth Quarter and Full Year 2016](#)

According to Thomson Reuters, long-term public municipal issuance volume totaled \$100.3 billion in the fourth quarter of 2016, a decline of 7.5 percent from the prior quarter (\$108.5 billion) but an increase of 31.1 percent year-over-year (y-o-y) (\$76.5 billion). Including private placements (\$4.5 billion), long-term municipal issuance for 4Q'16 was \$104.9 billion. Despite the fourth quarter decline, full year issuance was \$423.8 billion, an increase of 12.2 percent from 2015 well above the 10-year average of \$372.0 billion. Including private placements, full year issuance was \$445.8 billion.

Tax-exempt issuance totaled \$91.2 billion in 4Q'16, a decline of 7.3 percent q-o-q but an increase of 35.2 percent y-o-y. For the full year, tax-exempt issuance was \$383.1 billion, an increase of 13.2 percent from the prior year. Taxable issuance totaled \$7.3 billion in 4Q'16, a decline of 7.3 percent q-o-q but an increase of 40.0 percent y o y. For the full year, taxable issuance was \$28.5 billion, an

increase of 2.2 percent from 2015. AMT issuance was \$1.9 billion in 4Q'16, a decline of 18.4 percent q-o-q and 52.1 percent y-o-y. For the full year, AMT issuance was \$12.2 billion, 8.1 percent above 2015 volumes.

By use of proceeds, general purpose led issuance totals in 4Q'16 (\$22.7 billion), followed by primary & secondary education (\$19.0 billion), and water & sewer (\$10.7 billion). For the full year, general purpose led issuance totals (\$103.7 billion), followed by primary & secondary education (\$81.9 billion), and water & sewer (\$44.1 billion).

Refunding volumes comprised 46.6 percent of issuance in 4Q'16, declining slightly from the prior quarter (52.3 percent) but was an increase year-over-year (43.5 percent). For the full year, refunding volumes comprised 50.7 percent of all issuance, down slightly from 2015 (51.8 percent).

[View the full report.](#)

[SIFMA Releases 2017 U.S. Municipal Issuance Survey: Long-Term Issuance Likely to Taper.](#)

Although total municipal bond issuance is expected to increase this year, a drop in refundings is likely to contribute to a decrease in long-term muni issuance from \$423.8 billion in 2016 to \$417.5 billion in 2017, based on SIFMA's survey released Wednesday. "Many bonds are issued with ten-year par calls so one of the driving factors for refunding volume is ... the new money issuance volume ten years ago," says Michael Decker, managing director and co-head of munis.

[View SIFMA Survey.](#)

[NCPFP, ULI Publishes Report: "Enabling Infrastructure Investment: Leveling the Playing Field for Federal Real Property"](#)

NCPFP and the Public Development and Infrastructure Council of the Urban Land Institute have published "Enabling Infrastructure Investment: Leveling the Playing Field for Federal Real Property," a report that explores opportunities and options for responsible infrastructure reform specifically through the lens of re-evaluating the federal real estate project scoring rules and using reform of those rules as a testing ground for developing new practices in similar areas.

The beginning of a new presidential administration and Congress provides a novel opportunity to reconsider existing practices and develop a framework for funding federal infrastructure projects outside of traditional funding models. With this in mind, NCPFP urges the incoming administration to prioritize reform of the budgeting and financing of federal real estate investments while widening avenues for private and commercial investment in these projects starting with revisiting the existing mechanisms for scoring and operating capital investment to eliminate existing loopholes.

The authors made the following four recommendations for the new White House to address this issue:

- The Office of Management and Budget (OMB) should test an alternative approach to scoring real property transactions that eliminates exceptions which allow the budgeted cost of investment to be

spread over multiple fiscal years.

- Federal investments in real estate assets should be evaluated on a life-cycle cost basis with up-front funding provided for the net present value of long term costs for all investment.
- OMB should develop and evaluate a model for scoring the “cost of doing nothing” through calculating the long term cost of deferred maintenance of federally owned real estate.
- The new administration and Congress should convene a Commission on Budget Concepts to review the efficacy of the current model and develop new paradigms for assessing the cost and value of capital investments.

The full report can be downloaded [here](#).

February 2, 2017

[Making Sound Cost Decisions in Pay for Success Projects.](#)

Abstract

In Pay for Success projects, the government repays project costs only to the extent that agreed-upon outcomes are achieved — and in so doing, seeks to achieve high-priority outcomes rather than simply buying outputs. Yet identifying the cost of achieving these outcomes can be a significant hurdle. Cost issues are particularly important for PFS projects because of the contractual nature of cost responsibilities and how project cost estimates inform outcome pricing. A number of potential cost elements need to be identified and estimated. These range from initial PFS project development costs, the cost of the evaluation, one-time and periodic investment costs (such as updating equipment), and annual operating and maintenance costs. While challenging, the steps and guidance provided in this report will help stakeholders (and particularly governments) with this process.

[Download the paper.](#)

The Urban Institute

Harry P. Hatry, Matthew Eldridge, Arden Kreeger, Reed Jordan

February 1, 2017

[Black & Veatch: Smart City / Smart Utility Report](#)

Imagine a community that is smarter, more integrated, more efficient—informed by data and planning. The evolution of smart cities and utilities marches on.

See how leaders are fulfilling the vision of the smart city – download the [2017 Strategic Directions: Smart City/Smart Utility Report](#).

[What Everyone Should Know about Their State's Budget.](#)

Get under the hood of your government and learn not just how much a state spends, but what drives that spending.

[Access the interactive app.](#)

Updated GASB Codification and Other Publications Available to Assist State and Local Stakeholders.

Updated versions are available of the Governmental Accounting Standards Board's (GASB's) Codification of *Governmental Accounting and Financial Reporting Standards, Original Pronouncements*, and the *2016-2017 Comprehensive Implementation Guide*.

These authoritative sources of Generally Accepted Accounting Principles (GAAP) for state and local governments equip preparers, auditors, and financial statement analysts with resources needed to stay current with the evolving governmental accounting environment.

Codification of Governmental Accounting and Financial Reporting Standards — an integrated view of the current version of accounting and financial reporting standards for state and local governments, organized by: General Principles, Financial Reporting, Specific Balance Sheet and Operating Statement Items, and Stand-alone Reporting—Specialized Units and Activities.

Original Pronouncements — incorporates a robust topical index, a paragraph-by-paragraph cross-reference to material in the GASB Codification, and the following authoritative pronouncements:

- GASB Statements, Interpretations, Technical Bulletins, and Concepts Statements
- NCGA Statements and Interpretations currently in force
- AICPA 1974 Industry Audit Guide and related Statements of Position continued in force when the GASB began operations.

Comprehensive Implementation Guide — an integration of authoritative questions and answers and glossary definitions from GASB Implementation Guides issued since June 2015 when Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued.

The [GASB's Governmental Accounting Research System Online](#) (GARS Online) provides direct access to all of this content, plus superseded Implementation Guides for reference and comparison. GARS Online is updated twice a year.

There are two ways to access GARS Online: through a free *Basic View* at <https://gars.gasb.org> or a paid *Professional View* with enhanced functionality including:

- Advanced navigation
- Powerful search features including suggested terms, faceted search, ability to save searches, and more
- Cross references allow users to compare, link, and analyze the relationship between two documents
- Open multiple documents
- Add personal annotations and bookmarks
- Archive feature shows detailed differencing between versions
- Ability to print documents and share content on social media sites.

The enhanced *Professional View* of GARS Online can be ordered at the [GASB Store](#); a single-user annual subscription costs \$430, with discounts for volume orders.

All of the contents of GARS Online (except superseded Implementation Guides) are also available in bound editions updated annually; current editions reflect GARS Online as of June 30, 2016. The *Codification* (two-volume set), the *Original Pronouncements* (two-volume set), and the *Comprehensive Implementation Guide* (one volume) can be ordered online at the [GASB Store](#) for \$115.00 each.

[Bond Dealers of America 2016 Year in Review.](#)

[Read the Review.](#)

JANUARY 17, 2017

[Student Housing: Comparing Options for Tax Exempt Financing - Orrick](#)

This book is designed for use by colleges and universities, developers, underwriters, direct purchase lenders and others involved in the financing of student housing.

[Download the Green Book.](#)

by Charles C. Cardall, John Wang and Roger Davis

The Orrick Public Finance Green Book Series | 01.09.17

Nothing in this book should be construed or relied upon as legal advice. Instead, this book is intended to serve as an introduction to the general subject of financing student housing, from which better informed requests for advice, legal and financial, can be formulated.

[Trends in Smart City Development.](#)

Our latest report, [“Trends in Smart City Development”](#) features case studies about how five cities are implementing smart city projects from different approaches. The report also provides recommendations to help local governments consider and plan smart city projects.

National League of Cities

[Informed Decision-Making through Forecasting: A GFOA Practitioner’s Guide.](#)

Author: Shayne C. Kavanagh Daniel W. Williams

Year Published: 2017

Description: Learn How to Improve Financial Decision-Making through Better Forecasting

The Challenges of Forecasting:

- **Forecasts are not effective.** The ultimate goal of a forecast is to improve financial decision-making; however, decision-makers are often much more influenced by factors other than the financial forecast.
- **Administrative burden/staffing capacity.** Forecasting is just one of many tasks that staff must perform, so forecasting competes for time and energy with those other tasks.
- **Lack of confidence in projections for out-years.** As forecasters look further into the future, the forecast becomes more uncertain.

Readers of *Informed Decision-Making through Forecasting* will learn that overcoming the above challenges will not often be accomplished by adopting more technically sophisticated forecasting techniques. In fact, in some cases, more sophisticated techniques may only exacerbate the problem, as more complex techniques may further strain limited staff resources and be less accessible and understandable to decision-makers, making the forecast results even less likely to be incorporated into the decision-making process.

For technical resources please visit <http://www.gfoa.org/forecastbook>.

ISBN: 978-0-89125-002-9

Member Price: \$60.00

Non-Member Price: \$90.00

Order Form: [Download](#)

[New York Federal Reserve Staff Report on Regulation and Bond Market Liquidity.](#)

Recently, the New York Fed issued a staff report about the relationship between increased regulation and bond market liquidity entitled, *Dealer Balance Sheets and Bond Liquidity Provision*. The full report can be accessed [here](#). The authors conclude that new bank regulatory constraints faced by the most active bond traders in the market have impacted bond market liquidity. This is a somewhat significant conclusion given that the NY Fed, and other regulators, have [argued](#) corporate bond market liquidity has not deteriorated.

BDA will be sure to discuss the report's conclusions during Capitol Hill meetings on the impact of regulations on the fixed-income market. Please contact the BDA if you'd like to discuss the report further. Thank you.

Focus of the Staff Report:

- The authors study the links between dealer balance sheet capacity, bond market liquidity, and the role of increased capital and liquidity regulation (Basel III) and trading activity regulation (Volcker) on bank holding companies with broker-dealer affiliates.
- The banks analyzed are bank holding companies with broker-dealer affiliates and the trading data is based on the supervisory version of TRACE, which means the name of the FINRA member that

reports a trade to TRACE is known.

Key Takeaways from the Staff Report:

- The authors state that historically the bonds that are actively traded by banks with with greater leverage, higher trading revenue, higher liquidity mismatch, and higher vulnerability are more liquid.
- However, the authors conclude that since the beginning of the implementation stage of the new bank regulatory regime in 2014 a shift has taken place. And the bonds more actively traded by more leveraged institutions (as described above) have become less liquid than before the implementation of the new regulatory regime.

We hope this information is valuable. Please contact the BDA if you have any questions.

Jessica Giroux at jgiroux@bdamerica.org

John Vahey at jvahey@bdamerica.org

Justin Underwood at junderwood@bdamerica.org

Bond Dealers of America

January 11, 2017

[GASB Issues Invitation to Comment in Project Designed to Improve Financial Reporting Model.](#)

Norwalk, CT, January 4, 2017 — The Governmental Accounting Standards Board (GASB) has issued an Invitation to Comment (ITC) on potential improvements to the governmental funds portion of the financial reporting model.

The ITC, [Financial Reporting Model Improvements—Governmental Funds](#), is intended to obtain feedback from stakeholders at an early stage of the Board's financial reporting model reexamination project. Interested parties are asked to review and provide input on the ITC by March 31, 2017.

The ITC addresses potential improvements that were initially identified during the research the GASB conducted to evaluate the effectiveness of the existing standards. These potential improvements include:

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide statements
- For certain recognition approaches, a statement of cash flows.

Importantly, the ITC introduces three alternative recognition approaches for governmental fund financial statements:

- Near-term financial resources
- Short-term financial resources, and
- Long-term financial resources.

These three approaches fall on a continuum—from a closer-to-cash approach at one end of the spectrum to a closer-to-economic resources approach on the other. The alternatives were developed to make governmental funds information more useful for financial statement users for making decisions and assessing government accountability.

The project is intended to consider improvements to only selected aspects of the existing financial reporting model. Improvements to other parts of the model are expected to be considered in future due process documents.

“This initial document in the reexamination of the financial reporting model lays out what two years of research indicated were the prime areas for improvement for governmental funds” said David A. Vaudt, GASB chairman. “This is a key opportunity for stakeholders to influence the direction of the Board’s deliberations on the fundamental issues related to governmental funds.”

Written comments should be addressed to the Director of Research and Technical Activities, Project No. 3-25I, and either emailed to director@gasb.org or mailed to the GASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

A series of public hearings and user forums on the ITC are scheduled as follows:

Public Hearings

- April 28, 2017, Atlanta, GA
- May 3, 2017, Dallas, TX
- May 11, 2017, San Francisco, CA
- May 21, 2017, Denver, CO (in conjunction with the annual conference of the Government Finance Officers Association)
- May 24, 2017, at 401 Merritt 7, Norwalk, CT

User Forums

- April 27, 2017, New York, NY
- May 12, 2017, San Francisco, CA
- May 18, 2017, Washington, DC (in conjunction with the annual conference of the National Federation of Municipal Analysts)

The deadline for written notice of intent to participate is March 31, 2017. Additional information is available in the [ITC](#).

[Water Research Foundation Publishes Report on Infrastructure Funding.](#)

The Water Research Foundation (WRF), a leading sponsor of innovative research supporting the water community, has published a new report to help utilities assess several new and emerging capital financing alternatives. The report indicates that while the new capital funding options may help, utilities still need sufficient and sustained revenue to pay for the financing, and that revenue will need to come from rates.

The project, “[New and Emerging Capital Providers for Infrastructure Funding \(#4617\)](#),” was funded because more than \$650 billion is needed for water and wastewater infrastructure upgrades and renewal over the next 20 years. The extraordinary capital funding needs, and the demands and

expectations of water utility stakeholders create a challenging capital financing environment for water utilities, leading policymakers to look for innovative ways of lowering borrowing costs and achieving other benefits, such as risk mitigation, greater public awareness, and value capture. New and emerging financing alternatives may be able to help utilities obtain these benefits while helping to close the infrastructure funding gap.

The research report documents the current state of financing alternatives in the water industry, identifies new and emerging capital financing alternatives, and discusses benefits and limitations of each. The research team facilitated interviews with utility managers, investors, investor advisors, and other organizations involved in municipal capital financing to gather perspectives on why various alternatives were used, how the process worked, what benefits were realized, and what lessons were learned. The research also gathered perspectives on the current level of investor interest and participation in these financing alternatives, and opportunities to increase said interest and participation.

In addition to examining the new funding options, the project found that the real problem with infrastructure funding is not the lack of traditional or innovative financing alternatives, but rather the limited amount of sufficient and sustained revenue funding sources that can pay for the financing. Ultimately, utility service rates are the primary means to fund capital investments in water utilities.

“While there are many new financing options for utilities to pursue in funding aging infrastructure, none are a silver bullet,” said Rob Renner, CEO of the Water Research Foundation. “Utilities will continue to need sufficient revenue to bridge the infrastructure gap.”

The final deliverables include 11 case studies, covering financing alternatives including green bonds, century bonds, public-private partnerships, public-public partnerships, private placements, WIFIA, self-financing, and integrated financing. These case studies are provided as a separate document.

The project also produced an interactive decision support tool to assist utility finance managers in assessing the potential applicability of the various new and emerging capital financing alternatives highlighted in this research report. This tool is not a specific endorsement or recommendation for any specific capital financing approach. Users of this tool should discuss capital financing alternatives with any and all internal or external registered municipal advisors that it deems appropriate before making any capital financing decisions.

The principal investigator for this project was John Mastracchio, CFA, vice president, Arcadis, U.S. Inc. The project was managed by Jonathan Cuppett, WRF research manager.

BY MIKE KEZDI ON DECEMBER 29, 2016

[Deloitte 2017 Power and Utilities Outlook.](#)

Trends and opportunities

Rising costs have been a big challenge for utilities planners. Fortunately, new regulatory structures and business models may help manage them. A [new industry outlook](#) highlights the trends and opportunities in the power and utilities industry:

- Impacts from a new administration

- Utilities sector transformation
- Ways to manage costs

Scott Smith, US Power & Utilities Leader, shares his insight on the continuing transformation of the industry.

NASBO Annual State Spending Survey.

Almost half the states cut their budgets this year, and that trend is likely to continue into 2017.

Weak revenues are causing the most state budget shortfalls since the Great Recession.

According to the National Association of State Budget Officers' (NASBO) annual [state spending survey](#), half of all states saw revenues come in lower than budgeted in fiscal 2016 and nearly as many (24) are seeing those weak revenue conditions carry into fiscal 2017, which ends in summer 2017 for most states. It marks the highest number of states falling short since 36 budgets missed their mark in 2010.

As a result, 19 states made mid-year budget cuts in 2016, totaling \$2.8 billion. That number of states "is historically high outside of a recessionary period," according to the report.

The revenue slowdown is caused mainly by slow income tax growth, even slower sales tax growth and an outright decline in corporate tax revenue.

Overall, state spending totaled \$786 billion last fiscal year, a 3.7 percent annual increase. Although it marks the seventh straight year of spending growth, it represents a slowdown from fiscal 2015 when spending increased by 4.4 percent. When accounting for inflation, 32 states are still spending less than they did before the Great Recession and total state spending also has yet to surpass pre-recession levels.

States reached at least one positive recession-related milestone this year: They're now saving more of their revenue in rainy day funds than they did before the recession hit in 2008. On average, states' rainy day savings represent more than 5 percent of their spending, compared to 4.9 percent in 2008.

They might need that money in the coming years.

State revenues have significantly weakened, increasing just 1.8 percent to \$781 billion in fiscal 2016, compared with the previous year's growth of 5 percent. For fiscal 2017, states are projecting to make 3.6 percent more in revenue, to total \$809 billion, but NASBO President-elect Michael Cohen said he expects that figure to come down.

He stopped short, however, of predicting a national downturn.

"Certainly a recession is coming sometime soon," said Cohen, who is also California's finance director. "But I think economists in all of the state offices would tell you that's a really hard economic forecasting [task] of predicting when that's going to happen."

NASBO had previously predicted that fiscal 2016 would mark the full recovery of state budgets from

the recession, but the cutbacks and increased inflation has delayed that at least another year.

On the spending side, states budgeted to spend a total of \$820 billion in fiscal 2017 — roughly \$34 billion, or 4.3 percent, more than the previous year. But that's likely to be trimmed in the event of slower revenues. As in recent years, K-12 education and Medicaid are the main targets of spending increases.

Not all states budgeted for increased spending, though. Eight (including energy-producing states like Alaska, North Dakota and Oklahoma) planned to spend less in 2017.

On the other side of the spectrum, 11 states planned to up their spending by 6 percent or more next year. The reason they can do that? In some places, sales tax increases have boosted their revenue.

Louisiana, for example, expects a 17 percent increase in revenue, driven by an expected \$800 million increase in sales tax collections.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 13, 2016

[NABL: The Bond Lawyer - Fall 2016](#)

The Fall 2016 issue of The Bond Lawyer® is now available. [Click here](#) to download the document.

The Bond Lawyer®: The Journal of the National Association of Bond Lawyers is published quarterly, for distribution to members and associate members of the Association. Article submissions and comments should be submitted to Linda Wyman, (202) 503-3300.

[GFOA Debt 101 Resource Center.](#)

Governmental entities have been using debt for more than 200 years to fund public infrastructure such as government buildings, water distribution systems, schools, police stations, and many other projects that require significant capital investment. When a government issues debt, it receives an infusion of cash to build a project; in return, the government repays the bond purchasers over time, plus interest. The use of debt allows a government to complete a capital project with a repayment schedule that spreads the cost of that project over its useful life, and the bond purchaser receives a reasonably reliable source of investment income.

Before issuing debt, a government needs to consider many factors. Appropriate planning and understanding help provide the most favorable results to the issuer while avoiding unnecessary risks and negative consequences. Debt issuance requires working with a number of partners, each with a specific role. The debt issuance will result in a financing agreement that is legally binding, and it is critically important that government officials understand the basic terms of the agreement and what the agreement commits them to do.

To ensure that issuers have all the information they need, the GFOA's Committee on Governmental Debt Management has created two new resources. Debt 101, Volume 1, provides a high-level outline of the debt issuing process and important considerations, and is intended to be a resource for the

first-time or infrequent bond issuer. Debt 101, Volume 2, discusses what needs to happen after the issuance is completed.

[Debt 101 \(Volume 1\) - Issuing a Bond](#)

[Debt 101 \(Volume 2\) - Responsibilities After Issue](#)

GASB Proposes Implementation Guidance Designed to Clarify Recent Pronouncements.

Norwalk, CT, November 30, 2016 — The Governmental Accounting Standards Board (GASB) today issued a proposed Implementation Guide containing questions and answers intended to clarify, explain, or elaborate on GASB Statements.

The proposed Implementation Guide addresses a wide array of practice issues, including questions related to the GASB's accounting and financial reporting standards on pensions, cash flow statements, the financial reporting entity, certain investments, external investment pools, fund balance, and tax abatements. The proposed Implementation Guide also includes amendments to previously issued implementation guidance.

The [Exposure Draft](#) of Implementation Guide No. 201X-Y, *Implementation Guidance Update—201X*, is available on the GASB website, www.gasb.org. Stakeholders are encouraged to review and provide comments by January 31, 2017.

The 5 Metro Areas Where Personal Income Is Rising Fastest.

Incomes are rising nationwide — but at a slower rate in rural America.

Metropolitan areas continue to record notably larger gains in personal income compared to more rural regions. Last year, personal incomes grew 3.8 percent within metro areas but only 2.7 percent outside them, according to new federal data.

The U.S. Bureau of Economic Analysis (BEA) recently released updated personal income estimates covering all counties and metro areas. We've compiled [data for each metro area](#) and adjusted it for inflation, showing changes in personal incomes over time.

Nearly all metro areas registering the steepest increases over the past three years are in the West, along with a select few other regions across the Sun Belt. Many of these areas benefitted from either a return of their tourism sector or a rebound from particularly severe job cuts during the recession.

Nationally, the Bridgeport-Stamford-Norwalk metro area in Connecticut surpassed Midland, Texas, for the highest per capita personal income — \$106,382 in 2015. Not too far behind were the San Jose and San Francisco metro areas in California.

In addition to work-related earnings, personal income data reflect income received from ownership of homes or businesses, along with transfer receipts from business or the government, but do not include capital gains or losses.

The following five metro areas recorded the top percentage increases in per capita personal income over the three-year period ending in 2015.

Merced, Calif.

The Merced, Calif., metro area has experienced the top personal income growth of any region since 2012, climbing an estimated 13.7 percent when adjusted for inflation.

One big contributing factor to the region's growth is the expansion of the University of California's Merced campus. The school, which opened only a decade ago, continues to add students, faculty and staff.

The expansion has further supported new developments around Merced, where long-vacant downtown retail spaces have started filling up. City officials recently announced plans to renovate one building to make way for a boutique hotel, as well as construct a new mixed-use development with more than 50 apartments.

Still, with an economy tied largely to agriculture, the metro area remains poorer than most other regions in California. Personal incomes declined only slightly in 2008 and 2009, then experienced sharp growth since 2012. The per capita personal income for the metro area of 268,000 residents was \$36,185 in 2015.

Greeley, Colo.

Weld County, Colo., has become the epicenter for the state's latest energy boom, fueling economic growth as oil and gas companies invested significantly across the region. The area saw its real personal income grow by 13.4 percent since 2012.

Richard Werner, president of Upstate Colorado Economic Development, said the energy industry's expansion has further led to rapid growth in other sectors, such as small manufacturing and food processing. "There's a diversification of industry that has really spurred the increase in household income," he said.

More recently, declining oil and gas prices hurt the energy sector. But the region isn't experiencing the same bust cycle as the Dakotas and parts of Texas since other sectors of the economy remain strong. Last year, with the exception of energy, all other industries in Northern Colorado continued expanding. Werner said workers who lost oil and gas jobs are finding new work in industries like construction, manufacturing and food processing without needing to relocate.

As the region's economy expanded, an influx of new residents followed; the metro area's population increased an impressive 8 percent over the three-year period.

Provo-Orem, Utah

An expanding tech sector has spurred significant economic growth across the Provo-Orem, Utah, metro area in recent years, helping to push up per capita personal income by 12.2 percent over the past three years.

It all started when the software giant Adobe, after acquiring an existing local company, opened a new 280,000-square foot campus in 2012, according to Ryan Clark, the city of Orem's economic development manager. Since then, other tech firms have relocated to the region, while numerous local entrepreneurs launched smaller tech startups. The Interstate 15 corridor, stretching from Salt Lake City down to Provo, now markets itself as the "Silicon Slopes."

The financial sector there is also expanding, and some of the ski resorts might be benefiting from increased tourism as well. “Traditionally, a lot of the graduates in this area would leave the state,” Clark said, “but I think more grads are sticking around now.”

The metro area took a hit during the recession, but the downturn wasn’t as severe as other parts of the country. Clark said he suspects a massive construction project started in 2010 that expanded and rebuilt several stretches of highway helped to prop up the local economy.

The region’s inflation-adjusted incomes have steadily climbed each year since 2010, reaching \$34,227 last year. While that’s still well below most other regions, it’s a long way from 2010 when personal incomes dropped to around \$28,000.

Napa, Calif.

Like many other regions of California and the Sun Belt, the Napa Valley took a deep hit during the Great Recession. But it has since rebounded just about as well as any other region.

The metro area’s per capita personal income — already higher than most other regions — jumped from \$54,899 in 2012 to \$61,483 last year in inflation-adjusted dollars, an increase of 12 percent.

The inland areas of California experienced much sharper declines in employment and home values than the coastal parts of the state, said Sean Randolph of the Bay Area Council Economic Institute. This meant that places like the Napa Valley had a deeper hole to climb out of, reflected in the region’s recent growth.

Wineries, hotels and other businesses in the Napa Valley benefitted from an improved tourism sector. Those with second homes in the area or others with more expendable incomes also helped to prop up the region as the economy has recovered.

Santa Rosa, Calif.

Santa Rosa, a metro area of about a half million residents, benefits from a larger, more diversified economy than Merced, Napa and other regions of California with sharp income gains. The area’s growing industries include tech, hospitality and health care. Kaiser Permanente and a casino resort serve as Sonoma County’s two largest employers.

The Bay Area Council Economic Institute’s Randolph said the region also benefits from its proximity to San Francisco as some residents commute to high-paying jobs in the city but reside further out where homes are more affordable.

Back in 2008 and 2009, the region’s personal incomes experienced sizable declines. The subsequent recovery took a few years to begin to accelerate, but real personal incomes have climbed an estimated 11.9 percent over the past three years.

GOVERNING.COM

BY MIKE MACIAG | DECEMBER 2, 2016

[Five Approaches to Reviving Aging Mall Sites.](#)

Aging shopping malls—many burdened with high vacancy rates or even abandoned—are being

transformed into vibrant, mixed-use destinations that are connected to their surrounding communities. Once-popular regional shopping malls are being hit from all angles: by the explosion of online shopping, millennials' preference for vibrant urban experiences, and ever-changing retail customers' tastes. At the 2016 ULI Fall Meeting, "the mall of the future" was explored by a panel of design, development, and placemaking experts.

Sarah Kimes, an associate vice president with design consultancy CallisonRTKL, ([download presentation](#)) discussed her firm's recent study of how aging mall sites might present opportunities for community regeneration. Her company's team developed conceptual transformations of five older shopping malls in the Dallas metropolitan area. The design teams were given no budgetary or feasibility restraints. The results presented food for thought:

- Ridgmar Mall in Fort Worth: Build a lake on the site and connect the site to surrounding uses.
- Irving Mall: Bring housing and an airport-connected transit center onto the site.
- Vista Ridge Mall in Lewisville: Make it plug-and-play adaptable and sustainable.
- Collin Creek Mall in Plano: Bring back the creek and redevelop the mall with a mix of uses.
- Six Flags Mall: Turn it into a drone port! And add on-site urban farming.

"What all these concepts had in common was a flexible, nimble program with diverse uses," said Kimes. "In the future, malls will be integrated with their surrounding communities; there will no longer be a delineation between the mall and the city. And these sites will have a thriving natural landscape, rather than being seas of concrete."

Kenton McKeehan, a managing director with Hines, agreed, saying: "Each shopping mall is a micro-economy, which must be sustainable and competitive beyond the obvious challenges such as internet sales. Malls of the future must address consumers' needs easily so that they don't have to go elsewhere. The success of malls will be driven not so much by thin retail profit margins, but instead by a mix of uses."

Repositioning shopping malls is easier said than done, noted Mark Bulmash, a senior vice president with the Howard Hughes Corporation, whose company is reimagining New York City's South Street Seaport after Hurricane Sandy took care of the demolition phase. In the absence of a natural disaster, developers can't just wave a magic wand to update tired shopping destinations. Department store anchors often have 75-year leases and other legal documents that must be "unwound" before a developer's vision can even begin to be realized.

"Stores want to monetize their assets," said Bulmash. "You have to talk them into selling their properties or convince them to agree with your plans." Added McKeehan: "Sometimes these guys are just not going to move, and you have to work around them."

While regional suburban shopping malls present a unique set of issues, many of their owners' challenges are shared by the entire retail sector. The good news for bricks-and-mortar retailers is that only 10 percent of U.S. retail sales are purely online, and even the most successful online retailers are expanding their physical presence so that customers can see and touch their wares. How can retailers make their offerings so compelling that customers will come to them?

One answer is to curate the entire customer experience in the shopping destination, including food, entertainment, and programming. Dining is becoming a draw for tourists, with travelers choosing hotels based on their proximity to restaurants they want to try. But retail destinations can easily become oversaturated with overpriced dining options. Some retailers are exploring use of technology to augment customers' experiences: for example, mirrors that show what garments would look like in other colors. The idea is to create experiences that are not replicable online.

All of these trends mean that developers need to change the ways they plan projects. “Good cities grow to meet demand, but developers don’t think that way,” said McKeehan. “We end up building assets that exceed demand.” By transitioning mall sites to a mix of uses, he posited, developers can help create consumer demand within the vibrant, modern micro-economies that will become the nonmalls of the future.

The Urban Land Institute

By Leslie Braunstein

November 14, 2016

[CDFA Releases Administration Transition Paper.](#)

Administration Transition Paper: Unlocking Development Finance Capital in the United States to Create Jobs & Increase Private Investment

Recommendations for the Next Administration to Address and Remove Barriers to Capital Access to Support and Maximize America’s Investment in Infrastructure, Energy, Small Business, Urban Communities, Rural Development and Agriculture.

[Read the Transition Paper.](#)

[Doing More with Less: State Revenue Limitations and Mandates on County Finances.](#)

Executive Summary

Counties provide front line support for the health, safety and prosperity of communities and residents. But they are struggling to deliver essential services around the country. States increasingly limit counties’ capacity to raise adequate revenue to fund their activities. At the same time, state and federal governments are imposing more mandates on counties, without providing adequate funding. Counties have adopted additional fiscal solutions, but they are not sufficient to cover the needs of their residents and communities. NACo conducted interviews with state associations of counties and state and county officials in each of the 48 states with county governments between February and July 2016 to better understand county funding sources, state revenue limits, federal and state mandates on counties, new fiscal challenges and county fiscal solutions. Supplemented by additional research of state statutes, tax codes and local government finance literature, this analysis shows that:

[Continue reading.](#)

NACo POLICY RESEARCH PAPER SERIES, ISSUE 5 • NOVEMBER 2016

JOEL GRIFFITH, JONATHAN HARRIS & DR. EMILIA ISTRATE

Results-Based Financing Approaches.

Observations for Pay for Success from International Experiences

Abstract

Globally, policymakers and the public are searching for solutions to help ensure money meant for public service delivery goes to fund effective programs. One such solution, results-based financing (RBF), leverages existing or new financial resources to incentivize results by paying for desired outcomes or outputs. RBF approaches are diverse and have emerged in different contexts and with different partners. Generally, however, they share two characteristics: payment is based on results and the relationship between payment and results is predefined. This brief introduces the diverse landscape of RBF approaches around the world and offers some observations and thoughts that may be relevant for the field, including those considering pay for success projects.

[Download the Report.](#)

The Urban Institute

by Matthew Eldridge and Rebecca TeKolste

November 10, 2016

U.S. Municipal Credit Report, Third Quarter 2016

About the Report

The municipal bond credit report is a quarterly report on the trends and statistics of U.S. municipal bond market, both taxable and tax-exempt. Issuance volumes, outstanding, credit spreads, highlights and commentary are included.

Summary

According to Thomson Reuters, long-term public municipal issuance volume totaled \$108.4 billion in the third quarter of 2016, a decline of 9.2 percent from the prior quarter (\$119.5 billion) but an increase of 25.8 percent year-over-year (y-o-y) (\$86.1 billion). Including private placements (\$3.8 billion), long-term municipal issuance for 3Q'16 was \$112.2 billion. Year to date ending September 30, municipal issuance totaled \$323.4 billion, well above the ten-year average of \$276.5 billion.

Tax-exempt issuance totaled \$98.1 billion in 3Q'16, a decline of 29.3 percent but an increase of 29.3 percent, respectively, q-o-q and y-o-y. Taxable issuance totaled \$7.9 billion in 3Q'16, an increase of 15.8 percent q-o-q and a 0.6 percent increase y o y. AMT issuance was \$2.3 billion, a decline of 67.8 percent and 1.5 percent, respectively, q-o-q and y-o-y.

By use of proceeds, general purpose led issuance totals in 3Q'16 (\$29.0 billion), followed by primary & secondary education (\$17.0 billion) and water & sewer facilities (\$10.7 billion).

Refunding volumes as a percentage of issuance fell slightly from the prior quarter, with 50.6 percent of issuance attributable to refundings compared to 51.2 percent in 2Q'16, but was higher than from

3Q'15 (48.9 percent).

[Read the full report.](#)

[Pay for Success Project Assessment Tool.](#)

Abstract

The PFS Project Assessment Tool (PAT) helps people answer a fundamental question: What makes for a strong PFS project? It describes core elements of PFS projects, explains why those elements are important, provides a scoring system to help distinguish the strengths and weaknesses of a proposed project, and generates recommendations for improving those weak areas. The PAT is designed for individuals, governments, and organizations working through PFS projects or, even earlier on, simply considering engagement with PFS. Broadly termed “stakeholders”, PAT users include government officials and advisors, public agency leadership, program managers, service providers, and others who are interested in learning whether PFS might work for their community. Completing the PAT also helps build the business case for a proposed project if that project scores well in each area.

[Download the full report.](#)

The Urban Institute

by Justin Milner, Matthew Eldridge, Kelly Walsh, and John Roman

November 3, 2016

[Losing \\$440 Million to Airbnb.](#)

A new [50-state analysis](#) of Airbnb vacation rental bookings found governments are potentially leaving \$440 million on the table this year in forgone tax revenue from Airbnb rentals. One-quarter of that total comes from New York alone, according to the report conducted by the accommodations search engine AllTheRooms.com.

About half of the country doesn't collect any taxes from Airbnb rentals, while 26 states have statewide or city specific deals to collect some portion of the hospitality tax from the company.

The Takeaway: This total is more of an estimate than a hard figure. The website got to the \$440 million total largely through projecting Airbnb's business this year based on historic totals. Still, the figure highlights an ongoing issue for localities: They're constantly playing a game of catch-up when it comes to recapturing a tax base that is gravitating more and more to the sharing economy.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 28, 2016

After Nearly a Decade, School Investments Still Way Down in Some States.

Public investment in K-12 schools — crucial for communities to thrive and the U.S. economy to offer broad opportunity — has declined dramatically in a number of states over the last decade. Worse, most of the deepest-cutting states have also cut income tax rates, weakening their main revenue source for supporting schools.

At least 23 states will provide less “general” or “formula” funding — the primary form of state support for elementary and secondary schools — in the current school year (2017) than when the Great Recession took hold in 2008, our survey of state budget documents finds. Eight states have cut general funding per student by about 10 percent or more over this period. Five of those eight — Arizona, Kansas, North Carolina, Oklahoma, and Wisconsin — enacted income tax rate cuts costing tens or hundreds of millions of dollars each year rather than restore education funding.

Most states raised general funding per student this year, but 19 states imposed new cuts, even as the national economy continues to improve. Some of these states, including Oklahoma, Kansas, and North Carolina, already were among the deepest-cutting states since the recession hit.

Our country’s future depends heavily on the quality of its schools. Increasing financial support can help K-12 schools implement proven reforms such as hiring and retaining excellent teachers, reducing class sizes, and expanding the availability of high-quality early education. So it’s problematic that so many states have headed in the opposite direction over the last decade. These cuts risk undermining schools’ capacity to develop the intelligence and creativity of the next generation of workers and entrepreneurs.

[Download the brief.](#)

Center On Budget and Policy Priorities

By Michael Leachman, Kathleen Masterson & Marlana Wallace

October 20, 2016

Feeling the Squeeze: Pension Costs Are Crowding Out Education Spending.

Abstract

Almost every state increased retirement benefits for teachers in the booming 1990s, but the additional promises were not accompanied by responsible funding plans. By 2003, the funding for teacher pension plans overall was short by \$235 billion; and by 2009, pension debt had more than doubled, to \$584 billion. The strong bull market since the Great Recession has barely put a dent in the shortfall, which still totals approximately \$500 billion. Another way of understanding the scale of the problem is by looking at pension debt per pupil—which increased by an inflation-adjusted \$9,588 between 2000 and 2013. Over this period, the growth of pension debt per pupil was more than nine times larger than the increase in total annual education expenditures per pupil. Almost every state has experienced large pension cost increases, but eight states—Arizona, Colorado, Indiana, Michigan, North Carolina, Nevada, Texas, and Wisconsin—experienced the double whammy of declining per-pupil expenditures and growing pension contributions.

Key Findings

Taxpayer contributions to teachers' retirement plans are expected to grow substantially over the next decade. But the underfunding shortfall is so large that aggregate pension debt will also continue to grow. Retirement costs per pupil are already approaching 10% of all education expenditures. Without meaningful reform, these costs, as well as the aggregate pension debt vowed to teachers' plans, will continue to rise and continue to crowd out education spending on the state and local levels.

Per-pupil spending on equipment, facilities, and property fell by 26% between 2000 and 2013, likely resulting in a growing backlog of expensive repairs and replacements that will need to be made sometime down the road. Spending on instructional supplies (e.g., textbooks) declined by 10% per pupil. More than half of states (29) spent less per pupil on instructional supplies in 2013 than in 2000; in several states, the decline was substantial: Arizona (37%), California (30%), Michigan (39%), and Oklahoma (30%). Teachers' salaries overall were basically flat between 2000 and 2013, and retirement benefits were reduced in almost every state, sometimes by very large amounts.

The vast majority of taxpayer contributions into teachers' pension plans are now used to pay down pension debt owed for past service rather than to pay for new benefits earned by today's teachers. As the value of this debt has increased, most current teachers have experienced stagnant salaries and reduced retirement benefits, while spending on classroom supplies, equipment, and building upkeep has declined relatively or even absolutely.

[Read the full report.](#)

The Manhattan Institute

by Josh B. McGee

October 18, 2016

Josh B. McGee is a senior fellow at the Manhattan Institute and vice president of public accountability at the Laura and John Arnold Foundation. In 2015, McGee was appointed to chair the Texas Pension Review Board by Governor Greg Abbott.

[2016 Supreme Court Preview for Local Governments.](#)

A number of cases currently on the Court's docket will directly impact local governments - and in two of those cases, a city is a named party.

[Read the preview.](#)

National League of Cities

by Lisa Soronen

[City Fiscal Conditions 2016](#)

But cities are still dealing with slow revenue growth and rising costs, according to a new report.

City revenues have struggled to get back to pre-recession levels. But things may finally be looking up.

On Thursday, officials announced that they expect city incomes to fully recover by next year — a decade after the start of the Great Recession.

It's by far the longest revenue recovery period in more than a generation as the bounce back period after the previous two recessions was done in half the amount of time. Currently, officials estimate that city revenues (accounting for inflation) have reached 96 percent of what they were in 2006, the year before the recession started.

The new prediction comes amid growing overall stability in city fiscal conditions as outlined in Thursday's [report by the National League of Cities](#) (NLC). With the financial crisis now far in the rearview mirror, city finance officers say they're highly optimistic about their fiscal stability — 81 percent feel they're better able to meet their needs than they were last year.

It's one of the most optimistic responses in the 30-year history of the NLC's annual fiscal survey of more than 19,000 cities, towns and villages.

"This is exciting news because this is the first time we are able to report sustained growth in city fiscal conditions," said Christiana McFarland, a co-author of the report, at a press conference.

As a whole, she said, cities seemed to have embraced more conservative budgeting practices. At the same time, stronger-than-expected economic growth has been seen in many places in recent years.

Last year, for example, the cities on average had budgeted for revenues to increase by one-third of a percent. The actual increase ended up being 3.7 percent. The average budgeted revenue increase for the current year is a half-percent.

Meanwhile, spending and the pressures that fixed costs are placing on city budgets are a big concern. A number of governments have delayed increasing spending on things like infrastructure and pension payments — line items that tend to grow exponentially the longer they're put off.

"Those things are now coming home to roost," said Michael Pagano, a dean at the University of Illinois at Chicago and the NLC report co-author.

Pagano added that cities with more taxing flexibility — such as those that rely on property, income and sales tax — are best positioned to adjust their revenue to match their spending needs.

But most cities don't have all three of those levers from which to pull. In addition, many cities have restrictive tax limits.

Houston, for example, has maxed out on a state-imposed cap on its local sales tax rate and has also reached its self-imposed general fund revenue limit. Because of that, it has lowered its property tax rate for the past two years, even as it faces increased needs from a growing population and mounting pressure to fix its underfunded pension system. Mayor Sylvester Turner wants to ask voters to lift the city's revenue cap but faces resistance from members of city council who want the city to identify and eliminate areas of wasteful spending first.

The political difficulty of raising taxes is the main reason cities are turning to fees as a means of

raising revenue. Over the past 20 years, fees have grown to account for 40 percent of city revenue, surpassing property taxes. The NLC survey reported that two out of every five cities raised fees in the past year — twice the number that reported raising property tax rates.

Fees, however, are by no means a cure-all.

For one, increasing fees doesn't raise as much revenue as hiking taxes. In addition, McFarland noted fees have "equity concerns" for cities because lower-income residents end up paying a greater share of their incomes toward the charges than others.

Looking ahead, as wage growth nationally continues to be slow — particularly for the lower and middle classes — the report warned that income inequality "will weigh heavily on future city income tax revenues and sales tax receipts."

GOVERNING.COM

BY LIZ FARMER | OCTOBER 14, 2016

[New Paper Examines State Economic Development Indicators.](#)

How do we know if state economic development incentive programs are working?

A recent report from the Center for Regional Economic Competitiveness with contributions from Smart Incentives strives to help states answer this question. In this article we highlight a few key points from [The State Economic Development Performance Indicators White Paper](#).

Findings on Indicators in Use

- Investment and jobs are the dominant indicators states use to assess incentive program performance. These indicators are used for a whole range of incentive programs serving a variety of business needs, including capital access, site/facility development, tax reduction, workforce, infrastructure, marketing/sales support, technology & product development and tourism.
- Economic development leaders tend to be dissatisfied with reliance on jobs and investment metrics because they may not be appropriate performance indicators for each of these different types of incentive program given the various business needs they are intended to address.
- Jobs and investment metrics are often not clearly defined or consistently applied across programs, hindering evaluations.

For example, while every state counts jobs, each does it differently. Even within states, some programs emphasize job creation or new jobs, while other might (1) include retained or existing jobs, (2) tally jobs for specified segments of the population, or (3) count jobs meeting criteria such as above average wages. Programs may also have different ways of determining what is a new job or defining full-time employment.

The white paper offers suggestions and examples of how to make job counts a more robust metric for state incentive programs as well as insight into how states measure "investment" across programs.

Improving Indicators

States are also seeking alternative indicators. The white paper highlights metrics beyond jobs counts and investments that states use to assess programs designed to support sustainability, worker earnings (to signify job quality) and entrepreneurship and innovation. Future research will delve further into these indicators.

The paper concludes with the following guidelines for selecting appropriate indicators to evaluate program performance.

1. Start with the big picture. A clear goal or performance statement is the foundation of good program evaluation.
2. Align indicators with stated program goals.
3. Assess data quality, cost and availability when selecting indicators.

Posted by Ellen Harpel

Incentives | October 12, 2016 | No Comments

[GASB Proposes Omnibus Statement Addressing a Broad Range of Practice Issues.](#)

Norwalk, CT, September 26, 2016 — The Governmental Accounting Standards Board (GASB) has proposed guidance to address a diverse set of accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements.

The issues covered by the [Exposure Draft, Omnibus 201X](#), include:

- Blending a component unit in circumstances in which the primary government is a business-type activity currently reporting a single column for financial statement presentation
- Reporting goodwill and “negative” goodwill
- Classifying real estate held for both operations and investment purposes by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension and other postemployment benefits (OPEB) liabilities and related expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Accounting for and reporting OPEB provided through certain multiple-employer defined benefit OPEB plans, and
- Simplifications related to the alternative measurement method for OPEB.

The Exposure Draft is available on the GASB website, www.gasb.org. Stakeholders are encouraged to review and provide comments by November 23, 2016.

NABL: The Bond Lawyer - Summer 2016

The Summer 2016 issue of The Bond Lawyer® is now available.

[Click here](#) to download the document.

How Can Water Systems Pay for Aging Infrastructure?

Water systems with aging infrastructure and low revenues can employ strategies like fixed rates, green bonds and partnerships to finance repairs.

Restoring aging underground pipes is estimated to cost water systems at least \$1 trillion over the next 25 years, according to the [American Water Works Association](#).

But most water systems only take in enough money to operate what they've got. Only about one-third of water systems earn enough revenue to cover replacement costs, according to a 2016 industry survey of 358 qualified utility, municipal, commercial and community stakeholders by [Black & Veatch](#).

"Water usage fees and local taxes support needed capital and operational costs, providing safe drinking water using the infrastructure already in place. However, the primary concern is that the current fee rates don't cover water utilities renewal and replacement cost for their infrastructure," said Patricia Buckley, director for economic policy and analysis at Deloitte LLP, in a recent [podcast](#).

Buckley, previously senior economic policy advisor to four secretaries of commerce, has put some thought into [potential financial strategies to address the long-term sustainability of water systems](#).

Buckley stressed innovation as the only way to address the crisis. Ratepayers for the smallest utilities-there about 28,000 community water systems serving populations of 500 people or fewer-do not cover any investment costs. When communities raise water rates, conservation goes up, which decreases utility revenue. It can be a viscous cycle.

"The bottom line is that there is no simple solution. We will need to scale innovative funding solutions and technologies, as well as adopt public policies that promote innovation in the water sector," wrote Buckley and her colleagues.

In addition to the following funding strategies, municipalities need to adopt predictive analytics and underground pipe repair technologies, as well as develop communications plans that engage and involve communities, they advised.

Fixed Fees

The U.S. Environmental Protection Agency (EPA) has been talking about [full cost pricing of water services](#) - pricing that factors all costs, "including past and future, operations, maintenance and capital costs"-since about the turn of the millennia.

This means structuring water bills not by usage-how much water each household consumes, the most common current practice-to a fixed fee that includes a portion that pays for the system's eventual end-of-life.

Paying for system replacement is common in other industries. For example, if you take a flight lesson, the bill includes the instructor's fee and the aircraft rental fee, which includes the [engine overhaul cost per hour](#).

Many in the water industry for years have voiced concerns over the underpricing of public water services, foreshadowing and predicting the current crisis.

In moving to fixed fees, each municipality can decide how to structure rates, whether it's by household income, or a flat rate. EPA talks about various rate schemes for small drinking water systems in its 2006 publication, [Setting Small Drinking Water System Rates for a Sustainable Future](#).

Green Bonds

Buckley noted that Green Bonds, which are 100-year bonds, are another encouraging possibility for financing aging water infrastructure.

In July 2014, the water authority in Washington D.C., DC Water, issued the first municipal water 100-year green bond to finance a portion of the \$350 million DC Clean Rivers Project. The project is the result of a 2005 consent decree for violations of the Clean Water Act.

Buckley said that the government plays an important part "in encouraging alternative funding mechanisms through legislation," citing passage of a December 2015 bill that lifted a ban on the issuance of tax-exempt bonds with loans for projects under the Water Infrastructure Finance and Innovation Act (WIFIA). WIFIA funds up to 49 percent of the cost of water, wastewater, stormwater or water reuse projects through low-interest federal loans. Prior to late 2015, funding the remaining portion through tax-exempt bonds was illegal.

"Lifting this ban allows utilities the leeway of raising money from the public while providing tax incentives. That said, the need to repay debt is another factor that could drive utilities to raise water prices in the future," she and her colleagues wrote.

For more information on this financial strategy, Green City Bonds has a primer on [How to Issue a Green Muni Bond](#).

Public Private Partnerships

Buckley also cited partnership with the private sector as a way for cities to finance repairs.

Bayonne, N.J., a community of about 63,000 in the northern part of the state, entered into a [joint venture partnership for both water and wastewater operations](#) with Kohlberg Kravis Roberts (KKR) and United Water, a unit of French giant Suez Environnement S.A. The city had outdated sewer and water systems and could not afford repairs on its own.

According to a [2013 report on the partnership](#), the city and KKR/United Water agreed to a Revenue Path Model. They locked into a fixed rate increase schedule that would assure modest future rate increases over the 40-year concession period.

EfficientGov

by Andrea Fox

September 19, 2016

Reckoning Time for a City's Bad Fiscal Decisions.

Providence has dug itself into a deep hole. Can it find the resolve to dig itself out?

The longer a government's finances are allowed to deteriorate, the fewer options there are when corrective action is finally taken. Anyone who doubts that ought to look at a [proposed 10-year plan](#) commissioned by the city of Providence, R.I., and produced by the federal National Resource Network (NRN). It makes a number of important recommendations, almost all of which would require very unpleasant decisions – the kind that all too many local governments are facing after years and decades of imprudent fiscal decisions.

Providence is confronted with tremendous fiscal challenges, ones severe enough that they could lead to municipal bankruptcy. The city faces an ongoing structural budget gap, one of the drivers of which is payments needed to rescue a public employees' pension that is officially just 27.4 percent funded.

The real pension picture is even worse, because that official funding ratio is based on the wildly unrealistic assumption that fund assets will earn an annual return of 8.25 percent. And there is more than \$1 billion in unfunded liability for retiree health care.

The city also has a comparatively low credit rating, which boosts the cost of borrowing. The degree to which new taxes can be relied upon to raise more revenue is limited: Providence's property taxes and its overall household tax burden are already among the highest in New England. Business taxes also are well above average.

The recommendations by NRN, a public-private consortium that is a component of the Obama administration's Strong Cities, Strong Communities initiative, could serve as a template for action for just about any fiscally struggling local government. To begin with, NRN suggests monetizing city assets and using the receipts to pay down pension and retiree health-care liabilities. A city-owned golf course could be sold, and the Providence Water Supply Board, which operates the state's primary system of reservoirs, water treatment and water distribution, could be leased with a large up-front payment to the city.

NRN also calls for suspending city retirees' cost-of-living adjustments. But a more radical recommendation is to freeze the existing defined-benefit pension fund and convert to a defined-contribution plan under which the city would be responsible only for contributing a set amount, not making specific periodic payments to retirees.

Other recommendations would also affect city workers. One calls for a dramatic reduction in raises based solely on longevity; another recommends reducing the number of paid holidays that employees receive. The fire department is a particular area of concern, one that provides yet another reminder of the perils of making topics beyond pay and benefits subjects for collective bargaining. The department has overtime costs and minimum staffing levels that are the highest among eight comparable New England cities. NRN suggests suspending existing minimum staffing levels once overtime spending reaches a set threshold. A more dramatic recommendation is that the city look at reducing the size of its fire department.

The story of how Providence dug itself into such a deep fiscal hole is a familiar one. During the 1990s, the city spent countless millions, most of it financed with debt, developing its downtown area. Unlike so many other cities that invested heavily in their downtowns, Providence did get something for its money: It soon gained a reputation as one of the nation's hippest medium-sized cities. But

amid all of the attention city leaders seemed to forget that those creditors would eventually expect to be paid back.

Downtown Providence is indeed vibrant, but now the bills are coming due and the path to solvency has become extremely narrow. Whether Providence and its residents will find the will to take that difficult path remains to be seen. If the city does rise to the challenge, it might even end up providing a map for other cities facing similar self-inflicted fiscal crises.

GOVERNING.COM

BY CHARLES CHIEPPO | SEPTEMBER 19, 2016

[Expanding Municipal Securities Enforcement: Profound Changes for Issuers and Officials.](#)

Robert Doty's new book - *Expanding Municipal Securities Enforcement: Profound Changes for Issuers and Officials* - discusses significant expansion since early 2013 in the enforcement activities of the Securities and Exchange Commission relating to municipal bond issuers and officials. Not only has the scope of securities law enforcement actions increased greatly in terms of number and subject matter, but penalties imposed are substantially more exacting for both municipal issuers and officials.

To learn more, and to order, [click here](#).

To read an excerpt, [click here](#).

[Tax-Exempt Municipal Bonds and the Financing of Professional Sports Stadiums: Brookings](#)

In "[Tax-exempt municipal bonds and the financing of professional sports stadiums](#)," Brookings Senior Fellow Ted Gayer, Austin J. Drukker, and Alexander K. Gold quantify the federal subsidies given to finance professional sports stadiums built or majorly renovated since 2000, and the total loss in federal tax revenue.

[How to Best Use Zoning Policies to Spur Workforce Housing Development.](#)

The potential and limitations associated with inclusionary zoning, a tool used by a growing number of U.S. cities to encourage or require workforce housing development, are explored in a new ULI report, [The Economics of Inclusionary Zoning](#).

While many U.S. cities have experienced a post-Great Recession economic revival, the accompanying run-up in housing costs is threatening to undermine this success by pricing workers out of cities, lengthening their commutes, and diminishing livability, notes the report. As a result, local officials are turning to inclusionary zoning as a way to combat the shortage of housing that is affordable to moderate- and lower-income workers.

The growing use of this zoning authority in cities across the United States—including New York, San Francisco, Atlanta, Detroit, Los Angeles, Nashville, Pittsburgh, and Seattle—has prompted requests for a ULI analysis of its effectiveness, explains J. Ronald Terwilliger, founder and chairman of the ULI Terwilliger Center for Housing and a former ULI chairman. “A number of local government officials and other stakeholders in different localities have sought objective advice from ULI on how to structure an inclusionary zoning policy that addresses the housing needs of their communities,” he says. “This report shows how inclusionary zoning can best be used to do just that. Ultimately, we are aiming to foster greater private sector involvement in affordable housing development.”

Through inclusionary zoning, cities require or encourage developers to create below-market rental apartments or owner-occupied housing in connection with local zoning approval of a proposed market-rate development. Inclusionary zoning policies depend on a prevalence of market-rate development to be successful; the policies tend to be ineffective in areas not experiencing significant market-rate activity.

“Our analysis and research find that local zoning policies can effectively encourage development of workforce housing, mostly in strong real estate market environments where communities provide the optimal mix of incentives,” says Stockton Williams, the author of the report and the executive director of the Terwilliger Center.

More than 500 cities and counties in 27 states and the District of Columbia have adopted inclusionary zoning policies that either are mandatory or voluntary or that incorporate a mix of the two approaches, the report notes. In general, the less flexible policies tend to be mandatory, require greater set-asides of affordable units, impose longer rent restrictions, target a lower-income category, and are applicable community-wide with no opt-outs and few or no incentives to make the policies more appealing to landowners and developers. The more flexible policies tend to be voluntary, require fewer set-asides, impose shorter rent restrictions, have a higher-income target, apply to specific housing types and locations within a community, make opt-outs available, and include market-responsive incentives.

The report, which focuses on multifamily rental development, is divided into three areas:

- Understanding the economics of development, which provides an overview of real estate development economics and key drivers of real estate development feasibility from a developer’s perspective;
- Assessing the impacts of inclusionary zoning on development, which assesses how key features of inclusionary zoning, such as share of below-market-rate housing and income targeting for those units, affect development feasibility; and
- Optimizing the effectiveness of incentives for inclusionary development, including direct subsidies, tax abatements, density bonuses, and reduced parking requirements.

“To the extent that inclusionary zoning policies remain in place over a sustained period of time, land prices may adjust and the requirements may be absorbed as a ‘cost of doing business’ in the jurisdiction,” the report says. “The challenge is that the most effective policies need to have the ability to adapt in response to changing market conditions. Both policy consistency and policy flexibility have value to developers and contribute to the success of an inclusionary zoning policy. Balancing them [consistency and flexibility] appropriately is perhaps the central challenge for cities seeking to make the best use of this particular policy tool.”

Urban Land Institute

By Trisha Riggs

September 2, 2016

Smart Skills Versus Mindless Megadeals.

Smart Skills versus Mindless Megadeals: Cost-Effective Workforce Development versus Costly “Buffalo Hunting,” with Proven Policy Solutions

Using data from dozens of programs and deals in Good Jobs First’s Subsidy Tracker database, we draw sharp comparisons between the costs of workforce development programs versus company-specific “megadeals.” Whereas 31 out of 33 training programs have four-figure costs per job, our current megadeals database shows an average cost to taxpayers of more than \$658,000 per job.

[Read the Report.](#)

Good Jobs First

by Thomas Cafcas and Greg LeRoy

September 2016
