

## Amendment Introduced in Senate to Expand Municipal Facility to Underwrite Credits that Incur a Loss.

As the Senate continues to debate a potential stimulus package, Senate Banking Chairman Mike Crapo (R-SD) has introduced an amendment that would expand the Fed's authority granted in the CARES Act to allow the Municipal Liquidity Facility to underwrite credits that may incur losses, without expanding the list of eligible entities.

**Text of the amendment can be viewed [here](#).**

The amendment would alter the CARES Act by:

*Clarification of 13(3) authorities under the CARES Act: clarifies that "the Secretary shall prioritize the provision of credit and liquidity to assist eligible businesses, States and municipalities, even if the Secretary estimates that such loans, loan guarantees, and other investments may incur losses."*

The BDA will continue to provide updates on the potential stimulus package as they develop.

**Bond Dealers of America**

August 5, 2020

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## DC Update: Muni Amendments Submitted for Senate Stimulus Package

Today, Senators Roger Wicker (R-MS) and Debbie Stabenow (D-MI) introduced amendments to the HEALS Act that would fully restore advance refundings and create a new BABs program exempt from sequestration. **The Chamber still remains far from a deal with the House and Administration, with little progress made this week.**

- The Advance Refundings legislation can be viewed [here](#)
- The BABs legislation can be viewed [here](#)

**\*\*We continue to work with key Senate offices on inclusion of advance refundings and direct pay bonds as the Senate continues to deliberate a final package. While the introduction of amendments is a good sign, probability of passage and inclusion remain an uphill fight.**

**Bond Dealers of America**

August 7, 2020

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## **Why Federal Aid Remains a Tough Sell for States and Localities.**

**President Trump remains opposed to a bailout for “poorly run states.” The administration may end up agreeing to help, but warnings about dire spending cuts have not yet prompted action.**

President Trump is not sold on the idea of helping states, cities and counties. In recent days, administration officials negotiating with congressional Democrats have apparently agreed to offer as much as \$150 billion in state and local aid as part of the next coronavirus relief bill, but the president himself says it would be a bad idea to bail out “poorly run states.”

“We can’t go along with the bailout money,” Trump said during a White House news conference on Wednesday. “We’re not going to go along with that, especially since it’s not COVID-related.”

Since the pandemic began, Republicans have been skeptical about federal aid for states and localities. In April, Senate Majority Leader Mitch McConnell floated the idea of letting states go bankrupt instead. The American Legislative Exchange Council has organized a letter-writing campaign among hundreds of legislators concerned about the federal deficit and other potential harms from a bailout.

The bipartisan associations that represent state and local officials assume that this has all been political posturing. Federal-level Republicans may not agree to the \$1 trillion in aid sought by congressional Democrats, but the expectation ever since the spring has been that eventually the two sides would meet halfway. That’s still not a bad bet.

Estimates vary, but states and localities may end up collectively falling about \$500 billion short of revenue projections over the next couple of fiscal years. A half-trillion dollars – the midpoint between the Democrats’ \$1 trillion and the GOP’s zero – would stave off major economic damage, says Dan White, director of government consulting at Moody’s Analytics, an economic research group.

“\$500 billion is not a bad place,” White says. “Quite frankly, I would be shocked if we don’t end up somewhere around this point.”

Economists almost universally agree that direct aid to states and localities is one of the best tools the federal government has at its disposal to avoid a weak recovery or a dip back into recession. States and localities employ about one out of seven American workers. Every federal dollar sent their way contributes at least \$1.30 to the economy.

“Federal aid to state and local governments has not been in question in prior recessions,” says Chris Hoene, executive director of the California Budget & Policy Center, a nonprofit watchdog group. “The surprise here is that there’s even a debate about whether there should be additional aid to state and local governments when there’s so clearly a need.”

States and localities have failed to convince their colleagues in Washington that they represent not just a good but necessary investment. Politically, they’ve presented a less sympathetic face than others seeking assistance, including schools, small businesses and unemployed individuals. Some of this may be due to “anti-government feeling,” says Laura Curran, the Nassau County, N.Y., executive.

“Numbers are important, but behind the numbers are actual people and actual services being provided to people,” she says. “What’s lost is the human element – the contact tracing and the

ambulances and the medics and the EMTs and all of the first responders.”

Curran says she “shudders to think” what kind of cuts she’ll have to make if federal aid is ultimately denied. The longer the negotiations in Washington drag out, the more nervous state and local officials are getting. They know that their revenue pictures are only going to grow worse.

On Wednesday, Maine Gov. Janet Mills directed state agencies to come up with 10 percent budget reduction plans. That’s a lower percentage drop than some other governors are imposing.

“We’re expecting states to have to go back and make adjustments to their fiscal 2021 budgets,” says Brian Sigriz, director of state fiscal studies at the National Association of State Budget Officers. “We’re hearing that fiscal 2022 is likely to be as difficult, or more difficult, than 2021.”

### **Why Resistance Remains Strong**

An earlier aid package enacted in March, the CARES Act, provided \$150 billion for state and local governments. McConnell and some other officials are unhappy that states and localities are asking for more money when they haven’t spent all of the CARES funding yet.

The Treasury Department has given states and localities some wiggle room, but there are still issues with how freely the CARES money can be spent. It was originally intended for expenses directly related to the coronavirus, not backfilling budget holes. For the most part, unspent sums are being held for anticipated expenses.

“That money is already spoken for,” says Tracy Gordon, a public finance expert at the Urban Institute. “You can’t spend the same dollar twice.”

There’s also a boy who cried wolf complaint. State and local revenues have yet to take a beating that’s been as serious as their initial fears. To a large extent, that’s because as late as July 15, they were still collecting taxes based on pre-pandemic income from 2019. Property taxes, of course, have not taken the kind of immediate hit that sales taxes have.

That doesn’t mean things won’t get worse. Tax revenues are always a lagging indicator, taking time to be affected as the economy slows. “I think the real pain you’re going to see in a lot of states is at the end of this year and the start of 2021, when you start seeing the income earned in 2020 reflected,” says White, the Moody’s analyst.

State and local officials are worried about the economy continuing to stall, or even reverse. The general economy has been propped up by the \$2 trillion CARES Act, but its extra money for unemployment benefits and small business aid has run dry.

“There’s this coming economic cliff that could have a huge impact on future revenue projections,” Hoene says.

### **Not Just Partisan Opposition**

The question of aid for state and local governments has become a partisan question, with Democrats and Republicans by and large lined up on opposite sides. But there are other forms of political resistance making federal relief uncertain.

During the debate over stimulus back in 2009, members of Congress were reluctant to send money out to other levels of government to spend. It’s just human nature. No one likes handing over their checkbook for other people to spend money. “Members of Congress push back,” Gordon says. “We

raise the revenue and governors get to spend it.”

In the end, state and local spending under the 2009 American Recovery and Reinvestment Act was closely monitored by the federal government. The feds set up a reporting system, with each state designating an official who participated in weekly calls with the Office of Management and Budget. President Barack Obama called Joe Biden, then his vice president and about to be anointed the Democratic nominee against Trump, as “the sheriff” overseeing the effort.

It may be more difficult to imagine such a cooperative effort taking place now. There have been moments of overt hostility between Trump and various Democratic governors recently, with constant friction over the years – including numerous lawsuits – between blue states and the administration.

But if federal policymakers don’t trust states and localities to spend the money wisely, they could send out money based on formulas – such as an increase in the Medicaid matching rate – while also demanding longer-term looks at issues such as pensions and “guardrails” against frivolous spending.

Counties are looking for help for the coronavirus response, not money to build new courthouses, says Boone County, Ky., Judge-Executive Gary Moore, the new president of the National Association of Counties (NACo).

“We hear the stories that local governments might actually increase their revenues over last year’s budget,” he says. “We’re not advocating for that. We’re advocating for oversight.”

### **A Drag on the Economy**

Rather than spending more, states and localities are looking at places they can cut. Most states had to draft budgets for the fiscal year that started July 1 without knowing what their 2019 income tax collections would look like or whether federal aid would be forthcoming. “Many are placeholder budgets, that explicitly say there’s too much uncertainty, so we’re going to pass a continuing resolution or include magic asterisks,” says Gordon, of the Urban Institute.

The most prominent example of the latter is California. Its budget includes dramatic cuts that will occur automatically if \$14 billion in flexible federal aid is not forthcoming by Oct. 15. It’s not clear what the cuts will look like if there’s less federal aid than hoped for, but the scheduled cuts include \$7 billion from K-12 and higher education and \$2 billion from employee compensation, with smaller cuts to courts and the like.

California began the year expecting to run a \$7 billion surplus. Instead, it ended up facing a \$54 billion shortfall. In contrast to the president’s complaints about mismanagement, the state entered the pandemic in sound financial shape. Its enacted budget includes \$9 billion drawn from reserves. “I would say that we certainly went into this recession, even as surprising and rapid as it came about, much better prepared than in prior recessions, particularly the Great Recession,” Hoene says.

California’s budget illustrates the kinds of cuts that will occur if federal aid is not provided to states and localities. Two-thirds of state and local budgets are spent on education, health and social services. To achieve substantial savings, that’s what they’ll have to cut.

Many of those programs are, in fact, federal programs that the states and localities carry out. The fact that governments act in many ways as pass-throughs makes them less sympathetic, politically, than stand-alone entities such as schools and hospitals. “People can visualize what it means, not having a teacher or not having police,” Gordon says. “It’s tangible. But state and local governments, they’re just something in the background.”

Sending aid to states and localities is a way to send money into every corner of the country. Failure to do so will not only hurt those governments, but the larger economy. The capital projects being put on hold all over mean vendors aren't being hired. "Yes, counties have their own employees, but typically private sector contractors are doing the job for us," says Matt Chase, NACo's executive director.

States and localities have shed 1.2 million jobs since February. Friday's job report showed some improvement, but absent federal aid, it could take years to recover those lost workers.

It's the lesson from the last recession that's potentially being forgotten, when state and local governments acted as a drag on the economy. Balanced budget requirements mean those governments, absent outside revenues, have to cut spending or increase taxes just at the time the economy is already hurting.

"They're actually amplifying the business cycle and making it worse," White says. "It's one of the significant reasons why the Great Recession was followed by the not-so-great recovery."

GOVERNING.COM

ALAN GREENBLATT, SENIOR STAFF WRITER | AUGUST 7, 2020

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## **States Are Using Federal Fiscal Aid But Need Substantially More.**

The Trump Administration and some news outlets are citing Treasury Department data showing that states had spent 25 percent of the CARES Act's Coronavirus Relief Fund (CRF) as of June 30 to argue that states don't need more fiscal aid to address their massive, pandemic-induced budget shortfalls. Policymakers shouldn't take this argument seriously, for three main reasons:

- **States have already allocated three-quarters of the CRF, a [survey by the National Association of Budget Officers](#) found.** This means they've committed those funds to health care providers, local governments, businesses, and others whose costs have risen due to the pandemic. Those entities are counting on the funds to reimburse costs they've already incurred or will soon incur. That's why the bipartisan National Conference of State Legislatures has expressed concern that the Treasury report "is not a complete picture of how states have budgeted money under the CRF."
- **Treasury's data cover less than half the time that states have to spend the CRF.** Recipients may spend the CRF to cover costs incurred to respond to COVID-19 from March 1 through December 30. Treasury's data cover spending for just four of those ten months, so it's no surprise that states haven't yet spent most of the funds. With the money meant to cover a ten-month period, it would be irresponsible for states to spend all or most of it in the first four months and then have none left to contain and respond to the virus and recession for the rest of the year.
- **Treasury's [confusing guidance](#) has hampered CRF recipients.** Treasury's confusing and contradictory guidance about the CRF's allowable uses, which it issued gradually over several weeks, slowed the process significantly as states, localities, and other governments tried to decipher it and sought further clarification. Most importantly, Treasury barred states from using the aid to offset the massive revenue losses from the pandemic and resulting economic downturn, which is the main cause of the fiscal crisis. Further, Treasury issued the guidance in fits and starts from late April (when states got their CRF allocations) through early July — the period covered by Treasury's data on CRF spending. The fact that states still managed to allocate and spend a

significant share of the funds during this period highlights the urgency of their needs.

The reality is that states, localities, tribal nations, and U.S. territories need significantly more federal aid. The pandemic has caused their revenue to collapse, creating an extraordinary fiscal crisis. Based on past recessions and economic forecasts from the Federal Reserve and Congressional Budget Office, we project that states alone face shortfalls totaling about \$555 billion through fiscal year 2022.

States and localities already have furloughed or laid off some 1.5 million workers. Without substantially more aid, they will permanently lay off more of these workers and cut other jobs for teachers, health care workers, and others — making the recession worse — and cut services that help people who've lost their jobs and others struggling due to the pandemic and its harmful impacts on families and communities.

## **Center on Budget and Policy Priorities**

by Michael Leachman

AUGUST 3, 2020 AT 2:00 PM

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### **[House Democrats Seek Better Rates on Loans to Cities and States.](#)**

Rashida Tlaib, Alexandria Ocasio-Cortez and other House Democrats signed on to a letter urging the Federal Reserve to do more to support state and local governments, adding to criticism that the central bank is being too cautious in some of the programs it set up to help the economy during the pandemic.

“Our states and cities are already anticipating unprecedented and catastrophic budget shortfalls,” according to [the letter](#), shared with The New York Times ahead of its release on Thursday. It urges the Fed chair, Jerome H. Powell, to lower the rate charged on the loans the central bank makes to municipal bond holders to near-zero, while extending the debt payback period to at least five years.

The central bank is buying municipal bonds, something that Mr. Powell had long been wary of doing because he worried that it ran the risk of picking winners and losers. The Fed has restrained the pool of eligible borrowers and made the terms unattractive. Only Illinois has chosen to use the program to date, given its pricing.

The Fed generally charges relatively high rates in its emergency lending programs, because it tries not to compete with private capital. But the central bank's role has blurred during the coronavirus crisis. For example, it now buys corporate bonds and offers loans to midsize businesses, backed by Congressional funding provided to the Treasury Department to protect the Fed against losses. Those programs have been difficult to run as a backup option, and in some cases provide credit alongside the private market rather than as a last resort.

The Democrat's letter — led by Ms. Tlaib, Pramila Jayapal, Joe Neguse and Mark Pocan — argues that the central bank is offering friendlier loan terms to businesses than to state and local governments.

But it is difficult or impossible to make an apples-to-apples comparison between the terms of the corporate programs and the municipal facility, because the programs and the markets they aim to

help are drastically different.

"The terms of borrowing are not particularly generous," Charles Evans, the president of the Federal Reserve Bank of Chicago told reporters this week, referring to the municipal program. "It would make sense for a lot of state and local governments to be waiting until they see what the parameters of fiscal support actually are."

Mr. Evans said that lowering the interest rate could be a "sensible thing to do," but he noted that the programs were settled on in conjunction with the Treasury Department.

"Sometimes there are differences of perspective there," he said. The Treasury has generally been more risk-averse than the Fed in creating emergency facilities.

## **The New York Times**

By Jeanna Smialek

Aug. 6, 2020

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### **Citigroup Suggests States Stoke Own Economies as Congress Flails.**

- **Chance to seize on lowest interest rates in nearly 70 years**
- **Analysts suggests raising cash to soften hit on poor**

With congressional talks surrounding a stimulus program at an impasse, Citigroup Inc. suggests state and local governments should seize on rock-bottom interest rates to do it on their own.

Municipal strategists led by Vikram Rai, said that state and local governments should consider selling bonds to finance social projects like access to affordable housing, health care or low-cost utilities.

"The populations are hurting right now," Rai said in an interview. "There has to be some level of state stimulus that should happen, given that there is a bottleneck with lawmakers in Congress."

But that may be a hard sell in statehouses and city halls, where officials are facing unprecedented budget challenges as the coronavirus pandemic slashes their tax collections. Governors and mayors have been pleading with lawmakers in Washington for aid, though talks on another relief package so far have failed, and they would likely be hesitant to run up debt just as their finances crumble.

Still, municipal bond yields are at their lowest point in nearly 70 years. That's providing an opportunity for state and local governments to tap markets at ultra-low borrowing costs, according to Citigroup, the second-biggest underwriter of municipal debt.

"There has never been a greater need to issue social bonds, and yields have never been lower," Rai said. "They shouldn't miss out on this window of opportunity."

## **Bloomberg Economics**

By Danielle Moran

August 7, 2020, 11:31 AM PDT

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## **Fed's Mester Says U.S. Economy Clearly Needs More Fiscal Support.**

Cleveland Fed President Loretta Mester says it's "clear that more fiscal support is needed to provide a bridge for households, small businesses, and state and local municipalities that have borne the brunt of the economic shutdown until the recovery is sustainably in place"

- "As the economy emerges from the reopening phase and moves into the recovery phase, the focus of Fed policy will expand from supporting market functioning and the flow of credit to ensuring that appropriate monetary policy accommodation remains in place to support the economy's return to more normal levels of economic activity and employment and inflation's moving back up," Mester says Wednesday in remarks prepared for a virtual event
- "Although our policy rate is already at its effective lower bound, the tools that we used to support the recovery from the Great Recession, including forward guidance about the future path of policy and purchases of longer-term Treasuries and agency mortgage-backed securities, can be used to provide additional accommodation": Mester
- "Clear communications about our policy strategy, which is part of our current review of our monetary policy framework, can also make the monetary policy actions we take more effective"
- "The increase in virus cases that we've seen in recent weeks has raised the downside risks to the outlook and is a stark reminder that there are several different scenarios that could play out"
- "Higher-frequency data and discussions with regional contacts do indicate that economic activity has slowed in recent weeks. Thus, the reopening phase may be more protracted than many had anticipated when it started"
- NOTE: Mester is a voter this year on the rate-setting FOMC

### **Bloomberg Economics**

By Matthew Boesler

August 5, 2020, 2:00 PM PDT

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## **Fitch: US Sovereign Negative Outlook Reflects Pressures Shared by USPF Issuers**

Fitch Ratings-New York-05 August 2020: US Public Finance (USPF) ratings are broadly affected by the same macroeconomic factors that precipitated the recent Rating Outlook Revision to Negative from Stable for the United States Sovereign Rating, says Fitch Ratings. However, most USPF ratings are not directly tied to the US Sovereign Rating and will not be immediately affected by the change in the US Outlook. Fitch expects the economic shock brought on by the coronavirus pandemic, which led to the deepest post-war recession, to cause a significant drop in GDP, contracting by 5.6% in 2020 and recovering by 4% in 2021. Failure to contain the virus and renewed lockdowns remains a risk and would further weigh on unemployment, financial stability and growth potential.

Federal actions to curb the nation's very high debt burden by curtailing spending might address Fitch's primary concern about the sovereign rating but would create challenges for states and healthcare systems that rely on federal funding for certain programs. State spending tightening in response could, in turn, affect aid to local governments. Medicaid comprises a significant share of state spending, much of which is provided by federal funding. Not-for-profit healthcare institutions derive a large portion of their revenues from Medicare and Medicaid, and changes to these



programs' funding or rate setting can affect hospital budgets and ultimately ratings.

Public finance housing sectors have exposure to the potential delay or curtailment of federal funds such as US Department of Housing and Urban Development (HUD) rental housing or interest rate subsidies and capital grants, military housing payments, and Housing Finance Agency (HFA) mortgage insurance payments.

Fiscal challenges at the federal level could ultimately affect grant anticipation revenue vehicle (GARVEE) bond ratings, particularly if the Highway Trust Fund does not receive needed funding in September when the program is up for renewal. Ratings for standalone GARVEEs are derived in large part from the strength, stability and reliability of the programmatic framework of the federal surface transportation funding program.

USPF ratings are not capped by the US Sovereign Rating unless the repayment is tied to federal government agencies or instruments. The Rating Outlooks of a limited number of ratings with direct linkages to or dependence on the Sovereign Credit will be revised to Negative, unless there are mitigants that reduce US sovereign exposure. These are: 1) pre-refunded municipal bonds where escrowed funds deposited with a trustee to advance refund the bonds are invested in US government obligations. Ratings on these bonds depend on the rating assigned to those securities, which are generally US treasuries or other bonds directly guaranteed by a US federal agency; and 2) tax-exempt housing bonds currently rated 'AAA' and secured entirely, or predominately, by Fannie Mae and Freddie Mac mortgage-backed securities.

Contact:

Arlene Bohner  
Managing Director, Head of US Public Finance  
+1 212 908-0554  
Fitch Ratings  
Hearst Tower  
300 W. 57th Street  
New York, NY 10019

Amy Laskey  
Managing Director, US Public Finance  
+1 212 908-0568

Sarah Repucci  
Senior Director, Fitch Wire  
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:  
[sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

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

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**[Fitch: Coronavirus Upending U.S. States' 2021 Budgets](#)**

Related Fitch Ratings Content: [Pandemic Upends U.S. State 2021 Budgets \(Revenue Outlook Uncertain\)](#)

Fitch Ratings-London-05 August 2020: U.S. states are generally well positioned to address the economic and revenue volatility emerging from the coronavirus pandemic although the fiscal resilience they built following the Great Recession will be put to the test, according to Fitch Ratings in a new report.

State governments have seen a steep drop in state tax revenues since the onset of the pandemic a few months ago. And with the new fiscal year now in effect for 46 states, Fitch expects most, if not all, budgets will be substantially revised over the next several months, representing an unprecedented lack of clarity facing state fiscal managers.

“Many states are facing significant revenue gaps in fiscal 2021,” said Senior Director Karen Krop. “As a result, many states will need to take additional steps to achieve budgetary balance, which may include non-recurring actions and even deficit borrowing, which historically has rarely been used by states.”

Two states long on Fitch’s “States to Watch” list, Illinois and New Jersey, are both considering sizable deficit financing to address the fiscal implications of the downturn caused by the coronavirus. “Illinois’ adopted fiscal 2021 budget serves as a fiscal placeholder with answers to key questions around federal actions, state expense management and voter sentiment expected over the next several months,” said Krop. “New Jersey’s response to pandemic-related budgetary disruptions has been swift, although the outlines for the state’s budget through fiscal 2021 remain a work in progress.”

What has worked in states’ favor as a whole is that they took advantage of the long expansion after the Great Recession to build their fiscal resilience, bring structural balance to operations, add to reserves and reduce budgetary liabilities. Because of these actions, they are relatively well-positioned to address the current downturn. Additional federal aid could mitigate deep spending cuts or sharp revenue increases that could have material economic implications and prolong the recovery. That said, a pivotal factor over the next several months will be how long the fallout of the pandemic lasts with coronavirus outbreaks surging across much of the country.

“Pandemic Upends U.S. State 2021 Budgets” is available at ‘[fitchratings.com](https://www.fitchratings.com)’

Contact:

Karen Krop  
Senior Director  
+1 212 908 0661  
Fitch Ratings, Inc., 300 West 57th Street, New York, NY, 10019

Eric Kim  
Senior Director, Head of U.S. State Government Ratings  
+1 212 908 0241

Arthur Tildesley, CFA  
Associate Director  
+1 646 582 4749

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

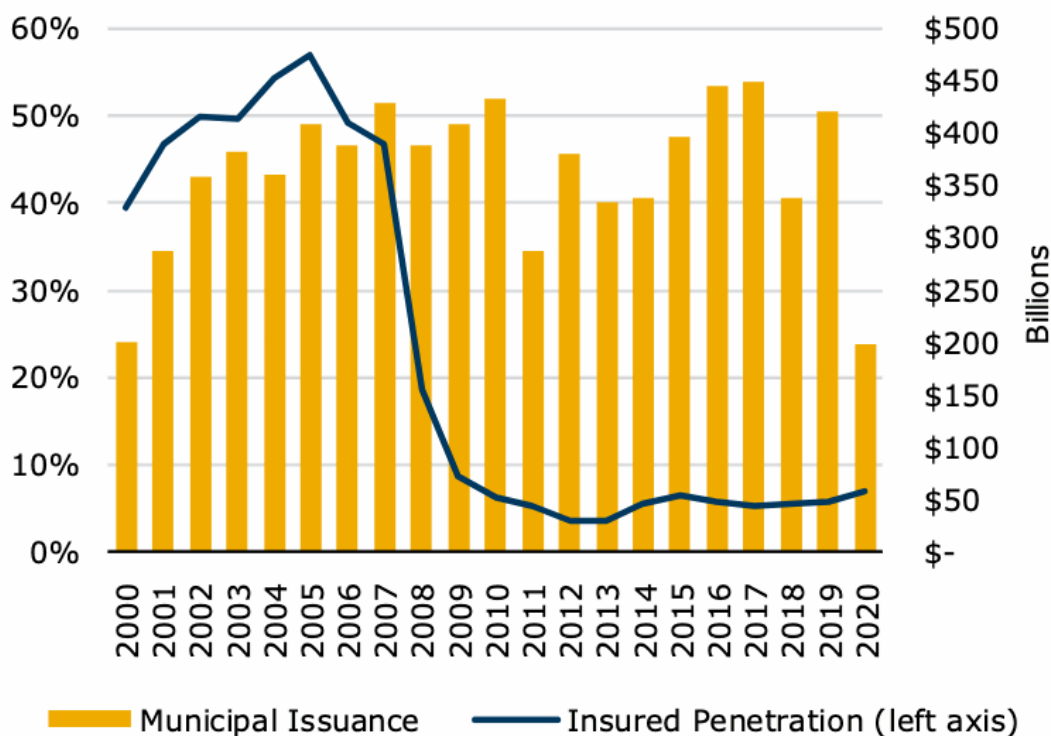
## **COVID-19 Pandemic Fears Drove Market Demand for Bond Insurance: KBRA**

The COVID-19 pandemic has overturned global markets and impacted multiple bond sectors. One of the pandemic's many knock-on effects is a shift in investor appetite for insured debt.

US credit rating agency, Kroll Bond Rating Agency (KBRA), released research which highlights the shift in investor appetite for insured debt as one of the many knock-on effects of COVID-19.

The current environment may present financial guarantors an opportunity to grow their insured portfolios to replace legacy exposure run-off.

**Figure 2: Insured Penetration and Municipal Issuance Since 2000 Through 1H 2020**



*Source: Refinitiv as accessed through Bondbuyer.com*

It was recorded that bond insurance penetration spiked sharply up to 7% in the first half of 2020, a level which has not been seen since the global financial crisis. However, KBRA notes that insured penetration remains well below historical highs of over 50%, with a return to that level seen as unrealistic.

The underlying causes of the rise in demand are widening credit spreads as well as increased investor concerns across many sectors of public finance. This is where the impact of COVID-19 continues to cause extensive financial and economic stress for issuers and heightened uncertainty.

Whilst putting capital as a replacement for the run-off of legacy exposure is a long-term positive for the financial guaranty industry, such a development would need to be balanced by adherence to

conservative underwriting standards.

Additionally, since the GFC, the emphasis on in-house credit analysis instead of relying solely on a financial guaranty policy, has raised.

A combination of low insurance penetration and steady run-off of legacy portfolios have led to historical lows in leverage ratios for financial guaranty insurers.

KBRA will continue to monitor the impact of the demand for bond insurance on the municipal market and on the financial guaranty industry.

## **KBRA**

5th August 2020 – Author: Steve Evans

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### **[KBRA Report Highlights Growth in Demand for Municipal Bond insurance: Report Notes Bond industry Insurance Penetration Spiked Sharply Higher in First Half of 2020](#)**

HAMILTON, Bermuda-(BUSINESS WIRE)-Assured Guaranty Ltd. (NYSE:AGO) announced today that Kroll Bond Rating Agency (KBRA) issued a report published July 30, 2020 entitled “[Coronavirus \(COVID-19\): Pandemic Fears Spur Market Demand for Bond Insurance](#)”.

“A main reason an issuer or investor may decide to ‘wrap’ a bond includes the benefit derived from lower interest cost coupled with improved liquidity and credit protection. These benefits are derived from the strength of the insurer’s balance sheet behind each policy.”

The report notes that “bond industry insurance penetration spiked sharply higher (nearly 7%) in the first half of 2020” due to widening credit spreads, increased investor concerns and heightened uncertainty for issuers.

Additionally, KBRA noted that “If the 1H level persists for the remainder of the year, it would be the highest level since 2009.”

Kroll further added, “A main reason an issuer or investor may decide to ‘wrap’ a bond includes the benefit derived from lower interest cost coupled with improved liquidity and credit protection. These benefits are derived from the strength of the insurer’s balance sheet behind each policy.”

The KBRA report follows S&P Global Rating’s (S&P’s) report published April 3, 2020 where it, too, pointed out that “in the current macroeconomic environment, demand for the financial guarantee product appears to be growing in the U.S. public finance market.”

During this challenging period for the U.S. economy, Assured Guaranty remains committed to its strict underwriting standards while continuing to help lower the cost of funding for municipalities and issuers, and providing enhanced security to investors.

In response to the report, Dominic Frederico, President and CEO of Assured Guaranty, said: “We are seeing significant increases in new business volume for Assured Guaranty in both primary and

secondary public finance markets and increased municipal bond insurance penetration for the Company since the start of the COVID-19 pandemic. We will continue to work with issuers, municipalities and our investors on meeting their financing and investing needs through our insurance guarantee and strong capital adequacy.

August 04, 2020

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## **S&P Global Ratings Definitions.**

(Editor's Note: We republished this article on Aug. 7, 2020, to add definitional content to it from various existing articles. See the media release "S&P Global Ratings Consolidates Various Articles Into Its Rating Definitions," published on Aug. 7, 2020, for a list of these articles. Also, we replaced "exchange offer" with "debt restructuring" in various tables, added a clarification sentence to our description of long- and short-term issuer credit ratings in the "General-Purpose Credit Ratings" section, refined the definition of financial enhancement ratings, updated wording in the "Types Of Instruments Carrying The 'sf' Identifier" section, and made minor refinements.)

[Continue reading.](#)

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## **R.J. Lehmann: Could 'Advance Refunding' Solve the Phase 4 Impasse?**

With Treasury Secretary Steven Mnuchin setting a Friday deadline for negotiations between the White House and House Democrats over the fourth iteration of legislation to deal with the COVID-19 crisis, perhaps no disagreement between the sides is more intractable than aid to state and local governments.

While Democrats prescribed \$1 trillion of aid in the Phase 4 package they approved in May, Republicans initially insisted the only aid they would consider is to allow local governments discretion to use an existing \$150 billion coronavirus relief fund to cover operating expenses, which initially was prohibited. GOP negotiators reportedly have since upped the offer to \$200 billion of new aid.

Democrats point to the extraordinary financial strain the pandemic has placed on local governments, both on the revenue and outlay sides of the ledger. Republicans insist that taxpayers ought not be asked to bail out irresponsible state and local governments that had spent themselves to the brink of insolvency—particularly with ever-more-generous pension fund obligations—long before the virus arrived on these shores.

There is, however, a compromise approach that could begin to address the concerns both parties bring to the table, so long as negotiators are willing to be creative. If Congress were to revisit a change made in the 2017 tax reform bill, which removed the option to "advance refund" municipal bonds, they could make it easier for local governments to borrow without any bailouts.

The Tax Cuts and Jobs Act (TCJA) of 2017 eliminated an option state and local governments previously had to conduct a single advance refund of bond issues. Under an advance refund, a new bond is issued and its proceeds, which are withheld for more than 90 days, are used to pay off the obligations from an outstanding bond issue. It allows the governmental issuer to take advantage of

lower interest rates.

While TCJA maintained muni bonds' tax-free status, it declared the interest income from any advance refunding bonds issued since 2017 is taxable. There were \$91 billion of advance refunding bonds issued in that final year before tax reform took effect, representing nearly a quarter of the muni bond market. According to the National Governors Association, which strongly supports reinstating advance refunding, volume of the issues fell 30 percent from Q1 2017 to Q1 2018.

Losing the option to advance refund has combined with broader effects from TCJA, notably cutting corporate rates from 35 percent to 21 percent. On a relative basis, that makes munis' tax-exempt status less attractive, particularly to institutional buyers like banks and insurance companies. The natural effect, over time, is that muni bonds' yields would need to rise to remain competitive, thus contributing to the cost for state and local governments to borrow.

Reinstating advance refunding—as proposed by the Investing in Our Communities Act, bipartisan legislation introduced by U.S. Reps. Dutch Ruppersberger, D-Mary, and Steve Stivers, R-Ohio—would lessen the crush on state and local governments by making it easier and less costly to borrow. The Government Finance Officers Association reports that, between 2013 and 2017, advance refunding saved taxpayers a combined \$12 billion.

At the same time, reinstating the option would not change the fact that local governments need to demonstrate they have a path to repayment, which in many cases will mean cutting spending to present to the market that they are on a sustainable fiscal path. It is a potential win-win that ought to be on the table.

**floridadaily.com**

*R.J. Lehmann is the director of finance, insurance and trade and a resident senior fellow at R Street.*

08.06.20

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## **[Brookings Institute Releases Infrastructure Stimulus Plan for the COVID-19 Recession.](#)**

[Read the Report.](#)

**Brookings Institute | Aug. 3**

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## **[College Towns Across the U.S. Are Bearing the Brunt of COVID-19.](#)**

**In the wake of COVID-19, California's largest higher public education institution, California State University (CSU), announced its plan to go completely virtual in the fall of 2020. This means that CSU's 23 campuses with eight off-campus centers, enrolling 484,300 students annually with 26,858 faculty members, will not be physically opening their doors in the fall for students. Along the same lines, the UC (University of California) system is also looking to follow suit and not allow students to physically attend classes at their 10 campuses throughout California serving over 285,000 students.**

This may be bittersweet for prospective and current students, but financially speaking, the college campuses are facing huge financial challenges in the near future i.e., a shortfall in student housing revenue and other revenue streams.

In this article, we will explore the future of college towns and how they are likely to bear the brunt of financial challenges due to no students in their respective towns.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Aug 05, 2020

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## **Illinois Appeals Court Allows Constitutional Challenge to State's Bonds.**

CHICAGO, Aug 6 (Reuters) – An Illinois appeals court on Thursday gave the green light for a lawsuit to be filed challenging the constitutionality of \$16 billion of the state's general obligation bonds.

The court reversed a Sangamon County judge's ruling last year that blocked a so-called taxpayer lawsuit from being filed, calling it political in nature. The appeals court said it expresses no opinion on the merits of the claims, but merely concluded the lawsuit should be permitted to be filed because it was not "frivolous or malicious."

Illinois, the lowest-rated state at a notch above junk, pays the biggest yield penalty among states in the U.S. municipal bond market and an ensuing lawsuit is likely to pressure prices on its bonds.

In July 2019, John Tillman, CEO of the conservative Illinois Policy Institute, petitioned to file a taxpayer lawsuit against state officials to stop billions of dollars in future payments on the approximately \$14 billion of bonds, backed by the state's full faith and credit pledge, that remained outstanding.

The petition claimed bonds Illinois sold in 2003 and 2017 violated the state constitution because the proceeds were not used to fund specific purposes like capital improvements. Illinois used proceeds from 2003's \$10 billion bond sale for its underfunded retirement system, while money from \$6 billion of bonds sold in 2017 was used to pay overdue bills.

There was no immediate reaction to the ruling from state officials. Tillman said he looks forward to his day in court. "By continuing to issue debt in violation of the rule of law, state politicians in Illinois have harmed taxpayers and the poor and disadvantaged who depend on the delivery of government services," he said in a statement.

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

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## **Assessing The Current State Of The Municipal Bond Market.**

**Summary**



- We believe there are opportunities in the short end of the municipal market.
- While investment grade municipals have rebounded, high yield continues to lag due to concerns over future economic growth and the level of economic stress that lower-rated municipal bonds may be able to handle.
- ESG analysis has been incorporated into the credit process, including quantitative and qualitative reviews of ESG-related risks and their potential impact on an issuer's credit profile.

[Continue reading.](#)

## Seeking Alpha

Aug. 7, 2020

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### **Corporate and Municipal CUSIP Request Volume Slows in July.**

#### **Three-Month Streak of Muni Request Volume Increases Comes to an End**

NEW YORK, Aug. 5, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for July 2020. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant decline in request volume for new corporate and municipal debt identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian equity and debt totaled 4,086 in July, down 19.4% from last month. On a year-over-year basis, corporate CUSIP requests are up 15.3%. The July 2020 monthly volume decrease was focused in U.S. corporate debt, which slowed 18.9% versus June 2020, and certificates of deposit with maturities longer than one year, which declined 20.6%

Municipal volumes also slowed in July, following three straight months of volume increases. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 10.1% versus June totals. However, requests for short-term notes with maturities less than a year increased 31.8% from June during the annual peak notes issuance season. On an annualized basis, municipal CUSIP identifier request volumes are up 11.9% through July.

“Corporate and municipal debt issuers had been ramping up access to liquidity for the last several months, but that trend changed in July,” said Gerard Faulkner, Director of Operations for CGS. “While annualized volumes are still telling a story of relatively healthy capital markets, this one-month slow-down in request volume is something market participants may want to watch for any further signs of lower issuance in the second half of the year.”

Requests for international equity and debt CUSIPs were mixed in July. International equity CUSIP requests were down 38.5% versus June, but still up on a year-over-year basis. International debt CUSIPs increased 7.8% on a monthly basis and declined 5.7% on a year-over-year basis.

To view the full CUSIP Issuance Trends report for July, [click here](#).



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## [Marijuana Liberalization and Public Finance: A Capital Market Perspective on a Public Health Policy](#)

This paper provides the first evidence on an unmentioned cost of U.S. medical marijuana liberalization imposed by investors in the capital market. Stephanie Cheng, Gus De Franco and Pengkai Lin show that the staggered passage of state medical marijuana laws increases state bonds' offering and trading spreads by 7-11 basis points. Consistent with medical marijuana laws causing an increase in states' credit risk, states incur higher safety and public welfare expenditures and experience greater deficits following the law's passage. Additional analyses show the increase in spreads is stronger for states with greater corruption, more vulnerable demographics, and better cultivation environments. Overall, these results support economic theory on substance use, which suggests that legalizing marijuana for medical purposes expands the availability, reduces the perceived risks, and increases the local consumption of marijuana.

[Read the full paper here»](#)

### **The Brookings Institution**

Stephanie Cheng, Gus De Franco, and Pengkai Lin

Thursday, August 6, 2020

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## [Investor Appetite For Munis Defies Gloomy Stimulus News \(Radio\).](#)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses failing Federal stimulus talks, and taxable munis. Hosted by Paul Sweeney and Vonnice Quinn.

[Play Episode](#)

### **Bloomberg Radio**

August 7, 2020 — 11:37 AM PDT

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## [Assets No More: Racial Justice Risks in Municipal Bonds](#)

***As a bondholder, you have a fiduciary responsibility to be aware of the risks related to revenue-motivated policing. As a citizen, you have a right to demand justice and equity from your municipality.***

In 1827, Louisiana agreed to back a series of bank bonds whose proceeds were used to purchase slaves.

The state pledged to use its "full faith and credit" to repay bondholders, meaning taxpayers were on the hook in the event of default. The American addiction to slavery saw to it that state-backed slavery bonds spread throughout Mississippi, Alabama, Tennessee, Arkansas, and Florida.

Black Americans were an asset class which grew to 2 million enslaved people worth over \$1 billion. However, by 1830, that “asset” started showing signs of early erosion when public tolerance of slavery started to decline. The Emancipation Proclamation eventually sealed the fate of this immoral market, leaving states like Florida with a debt of nearly \$120 per citizen.

[Continue reading.](#)

## **Generocity**

Aug. 4, 2020

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## **HYD: High-Yield Munis Have Rallied, But Risks Remain**

### **Summary**

- Defaults in the municipal space are rare, but when they do occur they are predominately in non-rated or below-investment-grade rated bonds.
- HYD holds over 1/3 of its bonds in the non-rated category, which does not give investors much insight into how risky those bonds really are.
- Tax-exempt debt will continue to draw investor interest, especially in 2021 if we see taxes rise.

[Continue reading.](#)

## **Seeking Alpha**

Aug. 9, 2020

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## **Franklin Templeton Launches Franklin Municipal Green Bond Fund for US Investors.**

SAN MATEO, Calif.-(BUSINESS WIRE)-Franklin Templeton today announced the launch of [Franklin Municipal Green Bond Fund](#), one of the few strategies solely focusing on muni green bonds. The fund seeks to maximize income exempt from federal income taxes by investing in green bonds, including climate bonds, sustainability bonds and environmental impact bonds.

“The muni green bond universe is expanding, and for investors, green bonds provide an opportunity to dedicate capital to projects and programs that have a defined environmental purpose,” said Ben Barber, director of Municipal Bonds for Franklin Templeton Fixed Income, “As demand builds from impact-focused investors and financial professionals, the limited inventory of offerings gives our team first mover advantage. As one of the largest municipal bond fund managers in the nation, our resources allow us to more completely analyze the space and better identify truly green projects.”

Franklin Municipal Green Bond Fund is managed by San Mateo, California-based portfolio managers Daniel Workman and Nicholas Bucklin of Franklin Templeton’s Municipal Bond team, one of the longest-tenured municipal bond investment teams in the industry. The portfolio managers leverage the firm’s experienced team of research analysts dedicated to municipal bond analysis to identify authentic green bonds.

“We believe active management is critical for municipal green bond investors,” Workman said. “In addition to applying credit research and identifying relative value opportunities, we perform due diligence to select authentic green bonds instead of solely relying on third party screens or labels that may not properly scrutinize the use of proceeds of a given green bond. We also look for opportunities to invest in unlabeled green bonds that use proceeds for clear environmental objectives.”

Bucklin added, “The municipal green bond market is young and continues to evolve, and the growing market allows dedicated green bond investment portfolios to achieve diversification across sectors and issuers. For investors seeking to align long-term investment goals with their environmental values, we believe Franklin Municipal Green Bond Fund offers a compelling solution.”

Franklin Municipal Green Bond Fund will invest at least 80 percent of its net assets in municipal green bonds. The universe of US municipal green bond issuers includes states, cities, municipal water and sewer enterprises, transportation systems, universities, and hospitals, among others. Under normal market conditions, the fund will invest at least 80 percent of its net assets in municipal securities whose interest is free from regular federal income taxes.<sup>i</sup> The fund also may have up to 100 percent of its assets in securities that pay interest subject to the federal alternative minimum tax.

The fund’s managers will leverage the same fundamental, bottom-up research analysis employed throughout the team’s range of municipal bond strategies. The research team is organized by sector groups, and there is at least one research analyst covering every sector of the municipal market. Due to the fragmented nature of the market, each sector has its own distinct criteria—both quantitative and qualitative—that analysts use to evaluate the creditworthiness of a given issuer.

As a signatory to the Principles for Responsible Investment (PRI), Franklin Templeton has made a firm-wide commitment to integrating an analysis of ESG factors into its core investment process across all of its investment teams and asset classes. The Municipal Bond team has responded by instituting a multi-pronged approach to ESG analysis for each credit reviewed.

Franklin Templeton’s 31-member municipal bond team manages a wide variety of single state and national municipal bond strategies for investors in the US and beyond, via a comprehensive fund lineup and institutional and separately managed accounts (SMAs), which include a green bond SMA.

All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest rate movements, the fund’s yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the fund adjust to a rise in interest rates, the fund’s share price may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond’s issuer, insurer or guarantor, may affect the bond’s value. Some sectors might be more likely to issue green bonds, and events or factors impacting these sectors may have a greater effect on, and may more adversely affect, the fund than they would a fund that does not invest in issuers with a common purpose. Green bonds may not result in direct environmental benefits and the issuer may not use proceeds as intended or to appropriate new or additional projects. The fund may invest a significant part of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project would likely affect all similar projects, thereby increasing market risk. These and other risk considerations are discussed in the fund’s prospectus.

Investors should carefully consider a fund’s investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other

information, talk to your financial advisor, call us at (800) DIAL BEN / (800) 342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.

August 04, 2020 09:30 AM Eastern Daylight Time

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## **S&P U.S. Local Government Mid-Year Sector View: Unprecedented And Unpredictable**

### **Mid-Year Sector View: Negative**

Disruptions caused by COVID-19 and the related recession came on quickly, but will create fiscal strain for local governments for some time to come. In light of this, we expect revenue shortfalls and imbalanced budgets will lead to credit pressure through 2020 and beyond, and in many instances long after much of the rest of the economy has normalized. Falling revenues from sales and other user taxes will pressure ratings, particularly for issuers with limited revenue and/or expenditure flexibility. Uncertainty regarding the amount of federal stimulus that may be forthcoming only adds to issuers' short-term planning pressures. We expect many issuers will use reserves to bridge gaps in revenue shortfalls. In our view, that would not necessarily exert downward pressure on ratings; we expect downgrades will be more likely for issuers who do not address issues that jeopardize structural balance over the next two to three years, and beyond.

[Continue reading.](#)

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## **Moody's Updates its Methodology for Rating US Local Government General Obligation (GO) Debt.**

New York, July 29, 2020 — Moody's Investors Service has published an updated methodology for rating US local government General Obligation (GO) debt, replacing the version from September 27, 2019.

In this methodology, Moody's has updated some language for transparency and removed one appendix. There were no substantive changes made to the methodology and there is no impact on current outstanding ratings as a result.

This press release is not intended to provide a summary of the methodology. For a full explanation, please consult the updated report called "US Local Government General Obligation Debt" now available on [www.moody.com](http://www.moody.com) and accessible at:

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1230443](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1230443).

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376 , London +44-20-7772-5456 , Tokyo +813-540-4110 , Hong Kong +852-3758-1350 , Sydney +61-2-9270-8141 , Mexico City 001-888-779-5833 , São Paulo 0800-891-2518 , or Buenos Aires 0800-666-3506 . You can also email us at [mediarelations@moody.com](mailto:mediarelations@moody.com) or visit our website at [www.moody.com](http://www.moody.com).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most

updated credit rating action information and rating history.

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## **S&P: Changing Landscape Threatens Credit Quality Of U.S. Convention Centers, Arenas, And Stadiums**

### **Key Takeaways**

- After seeing numerous downgrades this year, a recent resurgence in positive cases of COVID-19 does not bode well for the sector, particularly as planned re-openings falter or are reversed, directly affecting large crowd venues.
- Over the next six to 12 months we will be watching the impact social distancing measures have on the sector, as well as issuers' ability to realign expenditures with drastically reduced revenues, particularly if very large sized events remain prohibited.
- A prolonged environment of weak revenue collection and further deterioration in coverage will equate to additional downward pressure on ratings.

[Continue reading.](#)

July 27, 2020

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## **Fitch Revises U.S. Rating Outlooks to Negative on Public Finance Deterioration.**

- Fitch Ratings affirms the U.S.'s long-term foreign currency and local currency issuer default ratings at AAA and revises the outlooks to negative from stable.
- The outlook revision reflects "ongoing deterioration in the U.S. public finances and the absence of a credible fiscal consolidation plan, issues that were highlighted in the agency's last rating review on March 26, 2020."
- Notes that "high fiscal deficits and debt were already on a rising medium-term path even before the onset of the huge economic shock precipitated by the coronavirus."
- Fitch expects the country's general government debt to exceed 130% of GDP by 2021.
- On the positive side, "the U.S. benefits from issuing the U.S. dollar, the world's preeminent reserve currency, and from the associated extraordinary financing flexibility, which has been highlighted once again by developments since March 2020."
- Fitch considers U.S. debt tolerance to be higher than that of other AAA-rated sovereigns.

### **Seeking Alpha**

Liz Kiesche, SA News Editor

Jul. 31, 2020

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## **[The US Should Look to Canada to Reform its Public Pension System.](#)**

Observers of the diverse and often challenged American public pension system look north to Canada with a certain degree of admiration. Canadian public pension plans tend to be fully funded — some even have healthy surpluses. Most U.S. plans are in deficit, and several are unlikely to be sustainable. So what makes the Canadian system better? The inevitable response has to do with better governance. But it goes a lot deeper. It is the legal structure of Canadian public pension plans that enables strong governance.

Based on a [new, comprehensive study](#) of the largest Canadian and U.S. public pension systems — their design and performance — we found one feature of the Canadian model to be fundamental. If adopted in the U.S., it could reorient the relationship between employers and pension beneficiaries in the public sector, and even renew interest in defined benefit pensions for a significant group of private-sector employees.

Canadian public pension plans underwent a series of reforms starting in the late 1980s. Until then, many of them were not in good shape. In some cases, there was an unhealthy relationship between government pension sponsors and plan members. Sponsors were willing to grant benefit enhancements but did not match them with increases in pension contributions. So, both employers and employees became concerned about system solvency. Employers worried that they had made promises that would be difficult to honor. Employees worried that what seemed to be too good to be true actually was. Unions fretted that pension promises might be reneged when future governments realized they were simply not affordable.

[Continue reading.](#)

THE HILL

BY INGO WALTER AND CLIVE LIPSHITZ, OPINION CONTRIBUTORS — 07/28/20 04:30 PM EDT

THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

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## **[Pension Managers Reveal Why They Love or Hate Private Credit.](#)**

**Some of the biggest buyers have very different views on this fast-growing asset class.**

With some \$4 trillion to invest—and returns depressed by ultralow interest rates—U.S. public pension funds have been dipping their toes into private credit. The relatively new asset class had grown quickly, attracting almost \$1 trillion, before it was hit by March's pandemic-driven collapse.

[Continue reading.](#)

### **Bloomberg Alternatives**

By Fola Akinnibi and Kelsey Butler

July 28, 2020, 2:00 AM PDT

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## **S&P: Sudden-Stop Recession Pressures U.S. States' Funding For Pension And Other Retirement Liabilities.**

### **Key Takeaways**

- States continued to make progress on improving pension funding discipline, but the recession increases the potential they may reverse these gains to ease budgetary pressures.
- Low interest rates and equity market volatility may result in riskier asset allocations for plans to meet targeted rates of return.
- States have started to reduce headcount for budgetary relief, but declining payrolls will negatively affect contributions, as fewer active employees contribute to plan assets.
- Widening budget gaps this year may result in reducing contributions, extending amortizations, and other actions likely to slow the pace of pre-funding retirement liabilities.
- OPEB plans continued to be substantially underfunded as most states chose to direct limited surplus revenues to other priorities.

[Continue reading.](#)

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## **As Virus Aid Talks Stalemate, Trump Scorns Help for Cities.**

WASHINGTON (AP) — President Donald Trump on Wednesday dismissed Democratic demands for aid to cash-strapped cities in a new coronavirus relief package and lashed out at Republican allies as talks stalled over assistance for millions of Americans. Another lawmaker tested positive for the virus.

Republicans, beset by delays and infighting, signaled a willingness to swiftly approve a modest package to revamp a \$600 weekly unemployment benefit that's running out. But House Speaker Nancy Pelosi, D-Calif., roundly rejected that approach as meager, all but forcing Republicans back to the negotiating table. Without action, the aid expires Friday.

"We're nowhere close to the deal," said White House chief of staff Mark Meadows. He said they're "miles apart."

Stark differences remain between the \$3 trillion proposal from Democrats and \$1 trillion counter from Republicans, a standoff that is testing Trump and Congress ahead of the November election and putting aid for communities nationwide at risk.

Pelosi said the best way to reopen schools and the economy is to defeat the virus, and that can't be done with the "skinny" bill Republicans are rushing to cobble together. "They still don't get it," Pelosi said.

The virus toll continued to mount in the U.S., with 4.4 million confirmed cases and deaths passing 150,000. Outspoken Rep. Louie Gohmert, R-Texas, who often objects to mask-wearing, became the latest lawmaker at the Capitol to test positive for the virus.

Money for states and cities is a crucial dividing line as local governments plead for help to shore up budgets and prevent deeper layoffs as they incur COVID-19 costs and lost tax revenue in shutdown economies.

Trump complained about sending “big bailout money” to the nation’s cities, whose mayors he often criticizes.

“It’s a shame to reward badly run radical left Democrats with all of this money they’re looking for,” he said at the White House.

Democrats proposed nearly \$1 trillion for the local governments, but Trump and Republicans are resisting sending the states and cities more cash.

Instead, the GOP offers states flexibility to use \$150 billion previously allotted for the virus on other needs. At one point this year, Senate Majority Leader Mitch McConnell, R-Ky., said states could just declare bankruptcy.

Governors and mayors who have been urging Congress to help warned that inaction would hit hard.

“If Congress fails to dedicate financial assistance to state and local governments, it will force deep cuts to the very programs workers and families need to get back on their feet,” said Tara Lee, spokeswoman for Washington Gov. Jay Inslee, a Democrat.

Most states have built up reserves since the Great Recession, but the pandemic stopped swaths of the economy in March.

Municipal cutbacks and layoffs began. By June, about 1.5 million fewer people were working for governments in the U.S. compared with February, according federal data. More than half the government layoffs have been in education, a sector facing daunting costs as schools prepare to reopen to students.

Last month, Moody’s Analytics said states were facing a cumulative budget gap of \$312 billion over the next two years and local governments would need nearly \$200 billion more. Some estimates have calculated the budget gaps as even bigger.

“These are not fancy actions,” said Democrat Nan Whaley, the mayor of Dayton, Ohio, and vice president of the U.S. Conference of Mayors. “These are actions around emergency medical providers, fire, police, services the president claims he values.”

It’s clear that Democrats are trying to push an advantage in the negotiations because Republicans are so deeply divided over the prospect of big government spending.

Trump dismissed the GOP bill as “semi-irrelevant” as his team launched talks with Pelosi and Senate Democratic leader Chuck Schumer of New York.

McConnell defended his approach as “serious,” but he was unable to bring his majority on board. Many Republicans came around to the White House’s pitch for a smaller package by Friday.

That’s when the \$600 unemployment benefit boost as well as a federal eviction moratorium on millions of rental units expire, potentially sending households into devastating turmoil.

Speaking at the White House, Trump signaled his interest in reaching a deal and averting an eviction crisis.

Treasury Secretary Steven Mnuchin, who is leading the negotiations, said “the president is very focused” on unemployment aid and assistance for renters.



But the president said his GOP allies should “go back to school and learn” after they balked at \$1.7 billion for FBI headquarters in the bill. Trump wants the FBI’s central building to remain in Washington, across the street from his Trump International Hotel. McConnell opposed the request as unrelated to virus relief.

But Pelosi showed no interest in going small bore on aid. Asked what she thinks of that approach, Pelosi said: “Nothing. Not even ‘not much.’ Nothing.”

Republicans propose cutting the \$600 weekly unemployment benefit bump to \$200 a week as an incentive to push people back to work. On the eviction freeze put in place in March, Democrats proposed extending it, but Republicans did not include it in their bill and Trump hasn’t specified what he’s wants to do.

“There’s no consensus on anything,” said Sen. John Cornyn, R-Texas.

At the Capitol, Pelosi used a zoo metaphor to explain to Mnuchin and Meadows the divide. You see a giraffe, you see a flamingo, Pelosi told the White House team late Tuesday during private talks. These two bills, she said, “aren’t mateable.”

The conversations were relayed by two people who were not authorized to publicly discuss the private session and spoke on condition of anonymity.

## **The Associate Press**

By LISA MASCARO AP Congressional Correspondent Jul 29, 2020 Updated Jul 29, 2020

Associated Press writers Geoff Mulvihill in Cherry Hill, New Jersey; Rachel La Corte in Olympia, Washington; and Jill Colvin, Mary Clare Jalonick and Andrew Taylor in Washington contributed to this report.

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## **[Pandemic Brings Fresh Challenges for City Budgeting.](#)**

### **Officials from Philadelphia and other cities discuss how they’re responding to economic shock**

For city governments, the budget process is never easy. But this year, the COVID-19 pandemic and resulting recession have made that work exceedingly difficult—and the pain is only just beginning.

This was the consensus from several top city budget officials speaking at a July 8 online panel discussion organized by The Pew Charitable Trusts. The spending plans being adopted by major cities throughout the country are based on revenue estimates containing more than the usual dose of uncertainty.

“We expect there will be need for some adjustments,” said Philadelphia Budget Director Marisa Waxman, referring to the \$4.8 billion budget the city adopted in late June. “This has been a very challenging time. Philadelphia will survive; it has been around for 300 years and isn’t going away.”

The virtual panel discussion featured Waxman, San Francisco Controller Ben Rosenfield, Houston

Deputy Finance Director William Jones, and budget consultant John W. Hill, who served as Detroit's chief financial officer during its 2013 bankruptcy. The hour-long conversation before an online audience of more than 100 city policymakers, public finance experts, and other stakeholders was part of Pew's project on local fiscal oversight.

Houston and Philadelphia have approved spending plans for the fiscal year that started July 1. Although San Francisco's fiscal year also began July 1, its leaders delayed the new budget for three months to give themselves more time to deal with the economic shock.

During the discussion, the officials detailed how they scrambled to make cuts and offset the decline in local revenues, which was greater in cities like Philadelphia that rely more on income and sales taxes than on less-volatile property taxes. (Unlike the federal government, local governments cannot run budget deficits.) For now, none of the jurisdictions plans to reduce city employee pension contributions or borrow new money to close budget gaps. Each received funding from the federal coronavirus aid package, which must be spent on COVID-19-related expenses by December.

Houston, whose mayor initially talked about widespread furloughs of city workers, managed to avoid those and pass a budget roughly equal to the previous year's \$2.5 billion spending plan. The city is seeing a big drop in sales tax revenue, and the law limits the amount it can get from property taxes, its main source of revenue, Jones said. This left Houston with a gap of about \$170 million, which it filled by cutting costs, by taking about \$90 million from its reserves, and by "redeploying" workers and jobs into COVID-19 relief work.

That redeployment enabled Houston to fund those workers and jobs with some of its \$404 million in coronavirus aid, Jones said. Houston also projected having enough revenue this year to avoid tapping into its small rainy day fund. Neither Philadelphia nor San Francisco took such steps with that aid (\$276 million and \$154 million, respectively), and neither city is expected to replenish its rainy day fund this year.

San Francisco is likely to cut its fiscal 2021 budget below last year's \$6.5 billion, Rosenfield said. The city's property tax revenues have held steady, but just about everything else has plunged: Hotel tax revenues this spring, for example, fell from \$100 million to approximately \$10 million. The projected budget gap stands at \$750 million. The mayor has ordered all departments to plan for 10% cuts and brace for even more.

Like Waxman, Rosenfield understands that the uncertainty surrounding the coming months means that San Francisco's budget will probably have to be revised early and often. "We have an office pool going on how soon the first readjustment will have to be made. I'm guessing three months," Rosenfield said. In addition, he expressed hope that cities will increasingly use technology to deliver services—such as license renewals—remotely and more efficiently, a point echoed by the others.

Philadelphia's \$4.8 billion operating budget is about 8% smaller than the one that Mayor Jim Kenney proposed in early March before the outbreak. Then the recession hit sales tax and income-based taxes hard: The city initially warned of a \$649 million shortfall, then increased it to \$749 million as the numbers came in. To close the gap, the city took \$229 million from its reserves and rainy day fund and made up the rest with targeted tax and fee increases as well as layoffs. But that has left little cushion for another shock.

"We won't be able to dig \$100 million from the seat cushions again," Waxman said, agreeing with the others that some of the budget-balancing tactics used this year won't be available next year. Among the cities with current officials on the panel, only Philadelphia has laid off city workers at this point—454 in total, mostly part-time and temporary employees.

Hill said the economic shock, even though it came suddenly, is not a passing blip after which urban life—and the items and activities that cities tax—will return to normal. “There will be some changes in how corporations do business,” he said, “how we deal with physical infrastructure, how we deal with distance learning and work—and those are likely to be permanent.”

These changes and others, Hill said, are likely to complicate city budgeting for years to come.

## **The Pew Charitable Trusts**

By: Larry Eichel & Thomas Ginsberg

July 27, 2020

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### **Federal Aid Delay Will Mean Damaging State Cuts With Long-Term Impacts.**

States need substantial federal aid — now — to stem the fiscal crisis caused by COVID-19 and the resulting recession. States’ revenues are plummeting and their costs are rising and, as a result, they face budget shortfalls that could total more than \$550 billion through fiscal year 2022. Without substantial federal aid, they likely will address these shortfalls by deeply cutting education, health care, and other critical program areas; laying off even more teachers and other workers than they already have; and canceling contracts with many businesses.

**State are about to make damaging, permanent budget cuts.** Due to COVID-19, state revenues fell sharply and their costs rose dramatically when states had only three months left in their last fiscal year (2020). To balance their budgets while waiting for federal aid and assessing the full extent of the recession’s impact on their budgets, states used their traditional ways of addressing mid-budget shortfalls — tapping rainy day funds and other reserves, postponing projects, and furloughing workers. But many of these less-damaging budget fixes are no longer available for the current fiscal year.

**States haven’t finished shaping their current budgets.** Many state budgets for the current, 2021 fiscal year (which started on July 1 in most states) depended on revenues that are now expected to be substantially lower and did not fully account for costs that have risen.

[Continue reading.](#)

## **Center on Budget and Policy Priorities**

by Elizabeth McNichol

July 30, 2020

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### **Roundup: Need for More State Fiscal Relief Continues.**

States remain in dire straits due to the COVID-19 pandemic and resulting economic crisis; we estimate that their budget shortfalls will total \$555 billion over state fiscal years 2020-2022. These figures underscore the continued urgency of the President and Congress enacting substantially more fiscal relief and maintaining it for as long as economic conditions warrant.

Here are some recent CBPP pieces detailing the need for state fiscal relief, the harmful budget cuts states are already beginning to make, and why recent proposals from Senate Republicans are severely inadequate.

### **States Continue to Face Large Shortfalls Due to COVID-19 Effects**

We now project that the state budget shortfalls expected from COVID-19's economic fallout will total a cumulative \$555 billion over state fiscal years 2020-2022.

[Continue reading.](#)

CBPP

JULY 27, 2020 AT 4:30 PM

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### **Municipalities Tapping Markets To Finance Gaps: Mysak (Radio)**

MUNIS IN FOCUS: Joe Mysak, Munis Editor for Bloomberg Briefs, discusses muni markets: lack of stimulus deal and how governors and mayors are warning of big cuts. Hosted by Paul Sweeney and Vonnie Quinn.

[Play Episode](#)

#### **Bloomberg Radio**

July 31, 2020 — 11:25 AM PDT

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### **Despite GOP Bill, Muni Market Keeps Faith in U.S. Rescue for States.**

- **Analysts expect aid with budget gaps to emerge in compromise**
- **Some bonds gain even with massive fiscal crisis ahead**

Wall Street appears confident that Washington won't abandon states and cities that are veering into what may be the worst financial crisis in decades.

A day after Senate Republicans released a \$1 trillion plan that provided no new aid to help governments contend with the deep budget shortfalls left by the pandemic shutdowns, analysts said they still expect such help to be included in any compromise with Democrats.

The expectation that states and cities would receive an influx of funds has helped support the \$3.9 trillion municipal-bond market, where a steady flow of cash has driven yields to the lowest in more than sixty years.

On Tuesday, the prices of some top-rated debt edged higher, with 10-year yields holding at just 0.68%. So did the bonds of California, Illinois and New York's Metropolitan Transportation Authority, all of which are feeling the hit of the recession.

Kathleen McNamara, senior municipal bond strategist at UBS Global Wealth Management, said the

trading prices show that analysts and investors expect that states and cities will ultimately receive some financial assistance. She said Wall Street is anticipating between \$400 billion to \$500 billion of such aid, roughly half what Democrats included in the House bill that passed in May.

“Most market participants think there will be a compromise,” McNamara said. “We have zero versus a trillion. The final outcome is going to be somewhere in the middle.”

States alone may face shortfalls of \$555 billion through 2022, exceeding those left behind after the last recession over a decade ago, according to the Center on Budget and Policy Priorities. Cities and counties are also forecasting large deficits.

Without help, governments will be forced to cut spending, fire employees or raise taxes, all of which could further slow any economic recovery.

But Bank of America Corp. analysts have said they expect as much as \$400 billion in aid by the third quarter, while Morgan Stanley has forecast they will get as much as \$500 billion.

Eric Kazatsky, municipal strategist for Bloomberg Intelligence, said that he expects Congress to meet somewhere in the middle of the two parties’ proposals, which would put the aid in line with what banks have been forecasting.

He said the devastating budget figures released by states and cities so far, paired with the spike in virus cases across the country, will worsen the fiscal situation facing municipalities. He said they may need even more than the \$1 trillion House Democrats proposed in order to “get everybody on their feet again.”

“I’m not sure if even that’s enough,” he said.

## **Bloomberg Markets**

By Danielle Moran, Shruti Singh, and Emmy Lucas

July 28, 2020, 10:46 AM PDT

— *With assistance by Amanda Albright*

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## **Governors and Mayors Warn of Drastic Spending Cuts Without New Aid.**

- **Republican plan compares with \$1 trillion in Democrats’ bill**
- **N.Y. schools, localities face 20% cut without fed help: Cuomo**

After Senate Republicans balked at extending new federal aid to help cover states’ and cities’ swelling budget shortfalls, governors and mayors warned that they’re facing drastic spending cuts that will put the nation’s economic recovery at risk.

Senate Majority Leader Mitch McConnell and other top Republicans on Monday released a \$1 trillion package, setting off negotiations with Democrats. The plan doesn’t include additional funding to address states and local government budget deficits, a stark contrast to the approximately \$1 trillion that Democrats included in the bill the House passed in May. It does loosen restrictions on the use of previously allocated funds and would provide about \$105 billion in funds for schools and \$16 billion for expenses tied to Covid-19 testing.

But without broader aid from Washington, the budget crisis building in state capitals and city halls threatens to worsen the economic downturn by forcing governments to cut spending deeply, fire workers or raise taxes. After the last recession over a decade ago, such steps exerted a major drag on the recovery for more than two years, according to Commerce Department figures.

New York Governor Andrew Cuomo said the state would be forced to slash aid to localities, hospitals, and schools by 20% without federal aid. State revenues in New York have been decimated, he said.

"The funding has to come from somewhere," Cuomo said on conference call with members of the media. "It can't be more clear. It can't be more obvious. No fog of war on this one. This is real consequences."

Most states have already allocated the bulk of funding they received from the Cares Act, limiting the impact of a GOP plan allowing that money to be used to fill budget gaps — instead of just covering virus-related costs, the National Conference of State Legislatures said in a statement on Tuesday.

"For many states it will take years to recover from the abrupt drop-off in revenue caused by this pandemic," the group said.

If Congress doesn't come through, residents and commuters will be on the hook. New York state property taxes, subway fares, and even bridge tolls will go up if the federal government does not provide aid, Cuomo said on a conference call with reporters.

"There is nothing conceptual or abstract about this exercise. It's going to have a dramatic practical effect on New York," Cuomo said.

New York State, which received \$5.1 billion in funding for coronavirus-related expenses, has committed \$2.2 billion of those funds to respond to the public health crisis, with the rest allocated to be spent by the end of the year on operations like testing and contact tracing, according to a spokesperson for the New York State Division of the Budget. California has already appropriated the \$9.5 billion that the state received and is in the process of distributing those funds, according to a spokesperson for the California Department of Finance.

Michigan's budget office says more aid is needed to avoid cuts since it has already allocated \$3.1 billion in Cares Act funding as part of its public health and safety response, according to its website. The office says the state has seen a more than \$6 billion revenue loss over fiscal 2020 and 2021.

"Because of this deadly virus, every state in the nation — no matter if they're red or blue — has challenges, including dramatic shortfalls in revenues that fund vital services," Jordan Abudayyeh, a spokesperson for Illinois Governor J.B. Pritzker, said in a statement. "The federal government needs to help every state weather this pandemic so vital services continue without interruption."

States alone are projected to face budget shortfalls of about \$555 billion through 2022, according to the Center on Budget and Policy Priorities.

While any aid in the Republican plan was expected to fall far short of what Democrats proposed — given their intention to hold the overall cost of the stimulus to \$1 trillion — Wall Street analysts and local officials are counting on some money from Washington. Bank of America Corp. analysts have said they expect as much as \$400 billion in aid by the third quarter, while Morgan Stanley has forecast they will get as much as \$500 billion.

Any deal between Republicans and Democrats that ultimately leaves out such aid will deal a fresh hit

to many states, including California, that have been counting on federal funds. State and local governments have already cut nearly 1.5 million jobs since the pandemic shutdowns began.

According to Moody's Investors Service, as of July, five states enacted temporary spending plans, allowing them to briefly avoid some difficult decisions as they contended with the uncertainty of the coronavirus and waited for federal aid. That includes New Jersey, where lawmakers passed a three-month stopgap spending plan. Governor Phil Murphy has warned that tax increases may be necessary to cope with the fiscal fallout from the pandemic if no help arrives.

California's budget deferred \$12.9 billion in payments to schools and community colleges and borrows \$9.3 billion from other funds to avoid steep cuts in the hope that Washington would send additional aid by October. Illinois, the lowest-rated state, relied on borrowing to plug its budget gap.

The leader of the American Federation of State, County and Municipal Employees union, Lee Saunders, said in a statement on Monday that Senate Republicans are "seemingly content to let state and local governments go bankrupt."

The head of the National League of Cities, Clarence Anthony, said the Republican proposal "is out of touch with the grim reality facing communities large and small across the nation."

"There will be no national economic recovery without an clear commitment from the federal government to address the staggering revenue shortfalls and skyrocketing costs that local governments have been forced to incur," he said in a statement. The Republican proposal ignores "economists who have cautioned lawmakers about the devastating long-term impacts of failing to address local government revenue shortfalls."

## **Bloomberg Politics**

By Shruti Singh and Amanda Albright

July 27, 2020, 4:15 PM PDT Updated on July 28, 2020, 9:30 AM PDT

— *With assistance by Erik Wasson, Laura Litvan, Romy Varghese, Fola Akinnibi, Martin Z Braun, and Keshia Clukey*

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## **[Local, State Aid In Question As GOP Loiters On Stimulus \(Radio\)](#)**

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses the lack of progress on Federal stimulus. Hosted by Paul Sweeney and Vonnice Quinn.

[Play Episode](#)

## **Bloomberg Markets**

July 24, 2020 — 10:14 AM PDT

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## **[State, Local Disagreements About Coronavirus Funding Boil Over.](#)**

**In Miami-Dade County, officials with the city of Miami are threatening a possible lawsuit, saying the county has shortchanged them. County officials say they need to be conservative with the limited funding.**

The limited amount of federal coronavirus aid available to local governments is leading to legal disputes between some cities, counties and states over how the funds are disbursed.

Miami Mayor Francis Suarez said this week that the city is exploring the possibility of taking legal action against Miami-Dade County after lawmakers reduced the amount of money they plan to dole out to 34 cities located in its boundaries.

"Our citizens were entitled to receive, based on population, \$81 million in federal help," Suarez said. "The county proposal would get our citizens as little as \$8 million."

[Continue reading.](#)

## **Route Fifty**

By Andrea Noble,  
Staff Correspondent

JULY 29, 2020

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## **[Virus' Hit to Sales Tax Revenues is Coming Into Focus and It's Not Good.](#)**

**New data shows a 10%, or \$42 billion, drop in state and local sales tax receipts in the second quarter. Factors like whether groceries are taxed appear to be affecting collections in some states.**

State and local government sales tax collections nationwide were down by nearly 10% during the second quarter of this year, compared to the same three-month period last year, according to federal estimates released this week.

The figure gives a sense of how badly the economic crash caused by the coronavirus is eating into an important revenue source for many states and localities. The U.S. Bureau of Economic Analysis [estimates](#) show that, across April, May and June, state and local sales tax revenues totaled \$389.5 billion, down 9.8% from \$431.8 billion during the second quarter of last year.

A roughly \$42 billion decline in revenues is not good when it comes to states and localities avoiding cuts to services and layoffs in the coming months and into next year.

Lucy Dadayan is a researcher with the Urban-Brookings Tax Policy Center who actually assembles a significant portion of the data that the Bureau of Economic Analysis uses to come up with a set of state and local tax receipt estimates it released this week.

"We know that it's double digit declines, at least in the months where the economy was mostly shut down," she said, referring to the recent percentage decreases in sales tax revenues.

In an [analysis](#) published earlier this month, Dadayan said that May sales tax receipts for just states shrank by nearly \$6 billion, or 21%, compared to May 2019.



States where the virus hasn't been as bad tend to have seen their sales tax collections fall less, Dadayan said. The same goes for states that have imposed less-strict mandates when it comes to business closures and stay-at-home orders.

But, on the flip-side, some states that adopted more relaxed policies to protect against the spread of the virus have seen it flare up, and that can be bad for commerce.

In Florida, a state that became a hotspot for the virus over the past few weeks, sales tax revenues were down by about 15% in June, Dadayan said. While the state had extended a payment deadline, Dadayan said she believes the drop is mostly attributable to the virus' surge.

During fiscal year 2019, Florida relied on general state sales taxes for between 60% and 65% of its total tax revenues, according to information compiled by the Tax Policy Center. Other states that depend heavily on the tax include Texas, Washington, South Dakota, Nevada and Tennessee.

State and local officials around the country have been looking for ways to rework their budgets to account for thinner tax and fee collections, while they also must pay for added expenses that the virus outbreak has brought on. An infusion of about \$200 billion of federal aid to states, localities and schools included in an emergency law that President Trump signed in late March has helped.

But many state and local leaders say more federal aid is necessary. Even so, Republicans in Congress haven't shown much enthusiasm so far for another state and local relief package.

There is a wide variety of state and local revenues that could ultimately be affected by the economic fallout from the virus—which has contributed to historic job losses, business closures, bankruptcies, and collapses in business travel and tourism.

The BEA data show that state and local income tax collections were down about 7% in the second quarter, compared to the second quarter of last year. But this drop is likely tied to most states extending income tax filing deadlines to July, which is in the third quarter.

If states do take a major hit to income taxes due to their residents losing work, or other slowdowns in commerce, this is apt to show up in next year's tax collections, given that this year's payments are for earnings in 2019, prior to the pandemic.

Declines in property tax revenues—a crucial source of funding for local governments and school districts—are also more likely to lag, coinciding with any eventual slides in property value that won't immediately show up in tax receipts. Commercial real estate, in particular, could be a cause for concern here if office and retail spaces that are empty stay so for many months.

Other revenues, like highway tolls, transit fares and parking fees, are all in line to fall as well.

But in terms of general government tax collections, sales taxes are one of the main revenue streams where the fiscal damage from the virus is readily apparent in data that's now available.

That said, understanding what is happening in each state with sales tax collections, and how sales tax revenues changed month-to-month through June, is complicated by factors like differences in what is subject to sales tax in each state and delayed payment deadlines.

"It's a mixed picture, it's very messy for a number of reasons," Dadayan said.

She pointed out that in June there was an uptick in sales tax collections, with the national average growing by about 5%. But she added: "That doesn't tell the story at all."

The June increase to some extent resulted from states like California and Connecticut delaying the deadline for when businesses had to turn in their sales taxes. In other words, at least some of the June bump had to do with businesses paying taxes that would have otherwise been due earlier, rather than being a sign of surging economic activity.

There are also indications that states that tax grocery sales are faring somewhat better than those that do not, Dadayan said.

Beyond taxes collected on usual grocery sales, people have been eating-in more, and therefore buying more groceries, due to restrictions on restaurant service and concerns about the virus spreading in public places. There was also some panicked grocery buying earlier in the outbreak, when people stocked up on items like canned goods and cleaning supplies.

The added revenues from taxes on groceries may help to steady state coffers. But taxes on food and similar necessities are also regressive, placing an outsized burden on poorer households who spend a greater share of their income on those goods than wealthier people.

Dadayan said another factor buffering states from worse sales tax losses is that most of them enacted new laws to tax online retail transactions following a landmark U.S. Supreme Court ruling in 2018 that cleared the way for them to do so more easily.

## **Route Fifty**

By Bill Lucia,  
Senior Reporter

JULY 31, 2020

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## **[Fitch Fiscal 2019 Median Ratios for U.S. Colleges and Universities \(Performance Holds but Revenue Pressures Persist\)](#)**

Fitch Ratings sees steady margins amid pressured revenue for U.S. colleges and universities in fiscal 2019 amid thin prospects for growing student-fee revenue and persistent demand pressures. Credit gaps continue to widen, particularly for institutions rated in the 'BBB' rating category and below. Liquidity and leverage metrics were stable, marked by some growth in debt issuance countered by solid investment market performance. Median ratings were steady at 'AA' for public institutions and 'A-' for private institutions. Fiscal 2019 ratios do not show any effects from the coronavirus pandemic on university operations, but they are expected to be significant in fiscal years 2020 and 2021. We expect more rating and rating outlook pressure on both regional public and smaller, lower-rated private universities due to the pandemic. Operating Performance Stable Median operating results for public and private universities remained largely stable again in fiscal 2019, particularly on a cashflow basis and for institutions in the 'A' rating category and higher.

## **[ACCESS REPORT](#)**

Mon 27 Jul, 2020 - 12:00 PM ET

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## **Fitch: Medians Resilient For U.S. Colleges; Stiff Test Begins in the Fall**

Fitch Ratings-Chicago-27 July 2020: Medians held steady for U.S. colleges and universities this past year, though a new Fitch Ratings report says that the ratings gap between larger institutions and smaller, private schools will likely widen heading into the fall 2020 academic season.

‘Prospects for growing student-fee revenue remain thin and demand pressures will persist as universities focus on enhancing affordability and limiting tuition student cost increases,’ said Director Emily Wadhwani. ‘Somewhat constrained operating appropriations and external funding for public institutions will suppress net operating revenues and cash-flow operating margins further.’

Liquidity and leverage metrics were stable in fiscal 2019, while debt issuance increased marginally, countered by solid investment market performance. Median portfolio ratings held steady at ‘AA’ for public institutions and ‘A-’ for private institutions. Across the public and private institution portfolios, median coverage of current debt service and the median current debt burden were flat in fiscal 2019, reflecting moderate new money debt issuance, advantageous refunding issuance and relatively steady cash flow operations.

However, little to no growth in state support in fiscal 2019 and stunted median increases in student-fee revenue (under 3%) will exacerbate operational pressures and remain a key consideration in Fitch’s negative sector outlook. Credit gaps will also continue to widen, particularly for institutions rated ‘BBB(cat)’ and below.

While fiscal 2019 ratios do not show any effect of the coronavirus on university operations, the same will not be said for colleges and universities over the next two fiscal years. Not helping matters is overall funding for higher education, which could decline to levels not seen in nearly a decade.

‘Additional rating and Outlook pressure on both regional public and smaller lower rated private universities due to the novel coronavirus is likely for both fiscal 2020 and 2021,’ said Wadhwani. ‘Colleges will be contending with high or inflexible human resource costs and pressured enrollment, which will have a more acute impact on institutions with weaker demand prospects.’

Fitch’s ‘Fiscal 2019 Median Ratios for U.S. Colleges and Universities’ is available at ‘[www.fitchratings.com](http://www.fitchratings.com)’. Please join us Aug. 6 at 11 a.m. EST as Emily Wadhwani and Arlene Bohner discuss the 2019 median ratios, sector pressures and expectations for the remainder of 2020. Click [here](#) to register

Contact:

Emily Wadhwani  
Director  
1-312-368-3347  
Fitch Ratings, Inc.  
One North Wacker Drive  
Chicago, IL 60606

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **COVID-19 And Marijuana: Can Cannabis Municipal Bonds Help Government Budgets?**

Cannabis Based Municipal Bonds (CMBs) could offer governments and financial institutions a viable and creative way to aid in the recovery of lost revenues due to the COVID-19 pandemic, says a newly released report from cannabis and hemp advisory firm MPG Consulting.

As the cannabis industry continues to grow at a rapid pace and regulations mature, it is time for state and local governments, as well as traditional financial institutions, to start taking a serious look at the validity of CMBs as a source of financing for local initiatives and infrastructure, MPG analysts argue. In fact, they point to similar initiatives in place in the form of special tax bonds, typically backed by taxes, on certain activities or assets classes like tobacco, alcohol and gaming — the so called “sin taxes.”

### **How This Could Work**

To demonstrate how this could work, MPG conducted a theoretical analysis, using Denver as an example.

[Continue reading.](#)

### **Benzinga**

Javier Hasse, Benzinga Staff Writer

July 30, 2020

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## **Small Ways Muni Investors Can Make A Big Difference.**

### **Summary**

- Municipal bonds issued by state and local entities fund projects across various sectors that create the foundation upon which local economies thrive.
- Helping children and promoting equity in schools is a primary focus of our strategy around primary/secondary education.
- US municipal bonds are uniquely positioned to provide an array of channels for investors to make meaningful and impactful investments at a grassroots level, from education and environmental cleanup to health and workforce development.

[Continue reading.](#)

### **Seeking Alpha**

Jul. 28, 2020

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## **Insurers Seen Boosting Muni Stakes as Yields Surpass Corporates.**

- **15% of clients increased allocations to munis, DWS Group finds**
- **Taxable munis offer more yield than similarly-rated corporates**

Insurance companies appear to be stepping up their buying of American municipal bonds.

DWS Group, an asset-management firm, said a survey of its insurance company clients in the U.S., Canada and Bermuda found that 15% have increased their allocations to state and local government debt, compared with 5% that trimmed their share. The amount boosting their municipal-bond stakes was second only to the 25% of clients that increased allocations to investment grade corporate bonds. DWS and Greenwich Associates polled insurance-company clients with portfolios from \$1 billion to more than \$20 billion.

The increase comes as the Federal Reserve's interventions in the corporate market and a deluge of taxable sales by U.S. states and local governments is making muni debt subject to federal income taxes a better buy, said Matthew Caggiano, a municipal portfolio manager at DWS. Insurers can get bigger yields on munis even though they have higher ratings and much lower default rates.

Travelers Cos. boosted its municipal-bond portfolio by \$1 billion in the second quarter to \$32 billion, the insurer reported on July 23.

"Many taxable muni issuers are coming at wider spreads than similarly rated corporate bonds," Caggiano said.

Taxable muni issuance, including sales with corporate trading tickers, soared to \$72.5 billion in the first half of 2020, more than triple the same period in 2019. States, cities and non-profits like hospitals and universities took advantage of tumbling rates to refinance older debt and to boost their cash reserves as the coronavirus lockdowns decimated their revenue.

The University of Maryland Medical Center sold \$600 million of taxable bonds the week of July 13, in part to finance the construction on a new medical office building, parking garage and the conversion of two hospitals to freestanding medical facilities. Debt maturing in 20 years and rated A was priced to yield 1.73 percentage point more than Treasuries.

By contrast, last week candy-maker Mars Inc. priced \$900 million of 20-year bonds with the same rating to yield 1.05 percentage point more than Treasuries.

The allure of the taxable municipal bonds has increased since March, when a panic in the markets led the Federal Reserve to pledge to buy investment-grade corporate bonds and even some of the highest-rated junk bonds. As a result, the extra yield that investors demand for investment-grade corporate debt has plunged to 1.3 percentage point from more than 3.7 percentage points in March, according to Bloomberg Barclays Indexes. By contrast, the spread on taxable municipal debt is 1.67 percentage point.

U.S. municipal debt is one of the safest investments. Since Arkansas failed to pay its debt almost 90 years ago, no U.S. state has defaulted. From 1970 through 2019, the average five-year annual default rate for municipal bonds rated by Moody's Investors Service was 0.08%. Corporate bonds, which have lower ratings, had a 6.7% default rate over the same period.

### **Bloomberg Markets**

By Martin Z Braun

## **Competitive Bidding for Primary Offerings of Municipal Securities: More Bids, Better Pricing for Issuers?**

### **Abstract**

This paper examines the competitive bidding activity in municipal securities during the primary offering process. The prevalent view among industry participants is that when an issuer chooses the competitive offering method over the negotiated offering method or the private placement method, it is in the interest of the issuer to solicit as many bids as possible from competing underwriters or underwriter syndicates. Presumably, when underwriters compete to win the offering at a cost of sacrificing the profit margin, the issuer would benefit from the competition by selling the securities at the most advantageous price, or the lowest yield. There has been, however, scant research literature in recent years empirically investigating the relationship between competitive bidding activities and the resulting primary offering profit margin earned by the winning bidder from reselling.

This paper analyzes two aspects of the competitive offering process in recent years:

1. the average number of competitive bids received by an issuer; and
2. the impact of the bidding competition on winning underwriters' profit margins.

We found that the average number of competitive bids received gradually increased over the past 10 years, from an average of 4.4 competitive bids per issuance in 2009 to an average of 5.7 competitive bids per issuance in the first half of 2019. This conclusion holds regardless of the size of an issuance, the population of the state where the issuance originated (referred to in this paper as "issuance origination state") or the per capita income level of an issuance origination state. In addition, we found that the winning bidder's primary offering spread was negatively correlated with the number of competitive bids received after controlling for characteristics of each offering, such as offering size, time to maturity and yield, etc. Therefore, all things being equal, soliciting more competitive bids does indeed improve an issuer's selling price and reduce the yield cost for the issuer.

We caution that the conclusion from this paper is preliminary and may warrant further investigation, such as further exploring immediate trading in the secondary market during the first 30 days subsequent to the initial offerings.

[Continue reading.](#)

### **Municipal Securities Rulemaking Board**

by Simon Wu, Ph.D.

*Chief Economist at Municipal Securities Rulemaking Board*

Published on July 14, 2020

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## **Pre-Trade Market Activity: What Has Changed Since 2015?**

### **Abstract**

Since releasing a research report on pre-trade market activity in October 2018 (based on data from 2015), the Municipal Securities Rulemaking Board (MSRB) has obtained more recent quote data from the same two alternative trading systems (ATSs) with a significant presence in the municipal securities market and conducted an in-depth analysis for the period from June 1, 2018 through November 30, 2018. The analysis indicates that there was a significant increase in the amount of responses to Request for Quotes (RFQs, also known as “bid-wanted”) and live quotes in the three-and-a-half-year timespan between 2015 and 2018. For RFQs, the preliminary analysis confirms the results from the prior analysis that the execution rate on an ATS platform was higher when more responses were received. For live offer quotes, the analysis indicates that live quotes increasingly provided a valuable pricing indicator to the market, even though a majority of live quotes only represented one (offer) side of the market and 22% of all trades (and 58% of inter-dealer trades) were executed on an ATS platform. Quoted offer prices may have become more visible to market participants, and more informative to execution prices for inter-dealer, customer buy and customer sell trades, as a result of increased quote provision and offer price competition.

The authors welcome feedback and suggestions on this report as well as recommendations on additional data and analysis that could be helpful to municipal market stakeholders. Please contact Simon Wu, MSRB Chief Economist, at [swu@msrb.org](mailto:swu@msrb.org) or 202-838-1500.

[Continue reading.](#)

### **Municipal Securities Rulemaking Board**

by Simon Wu, Ph.D.

*Chief Economist at Municipal Securities Rulemaking Board*

Published on July 22, 2020

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## **Fitch Ratings Updates U.S. Public Finance Prepaid Energy Transaction Rating Criteria.**

Related Fitch Ratings Content: [U.S. Public Finance Prepaid Energy Transaction Rating Criteria](#)

Fitch Ratings-New York-14 July 2020: Fitch Ratings has published the following report: “U.S. Public Finance Prepaid Energy Transaction Rating Criteria.” This report updates and replaces the prior report published on July 25, 2019.

Primary revisions to the criteria include an explanation of Fitch’s treatment and assessment of funding agreements when rating prepaid energy transactions and inclusion of a more detailed description of the scope of surveillance reviews.

The key criteria elements remain consistent with those of the prior report, and there is no impact on outstanding ratings. The previous version of the criteria has been retired.

Contact:

Dennis Pidherny  
Managing Director  
+1-212-908-0738  
Fitch Ratings, Inc.  
300 W. 57th Street  
New York, NY 10019

Tim Morilla  
Director  
+1-512-813-5702

Nicole Wood  
Director  
+1-212-908-0735

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:  
sandro.scenga@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **INSIGHT: Bankruptcy for States? Yes, But Don't Forget the Constitution.**

With Covid-19 causing states to face rising expenditures and growing shortfalls in tax revenues, some policymakers and pundits have suggested making federal bankruptcy laws available to state governments. Susheel Kirpalani, partner at Quinn Emanuel, says Congress should act with precision and not haste, or it will increase the cost of borrowing in all 50 states and destabilize the multitrillion-dollar municipal bond market.

The U.S. bankruptcy laws are a foundational pillar of the world's most envied capital markets for one reason: they provide a reliable set of rules that lead to predictable outcomes. When states seek to access the \$3.9 trillion municipal finance market, investors take comfort in the fact that the Constitution makes it very hard for a state to break its contractual commitments based on changed circumstances—even if doing so would free up money for good uses.

Now that Covid-19 is causing states to face rising expenditures and growing shortfalls in tax revenues, some policymakers and pundits have suggested it's time to consider making federal bankruptcy laws available to state governments. These voices are quick to note that municipalities and state-level instrumentalities can already file under Chapter 9 of the Bankruptcy Code.

While opponents ponder whether subjecting states to federal court orders represents an affront to the 10th Amendment, any such law would be optional for states to use. The U.S. Supreme Court already cleared the way for this framework in 1938. The bigger constitutional concern is the continuing role of the Contracts Clause, which is the part of the Constitution that prevents states from reneging on their contracts at will.

### **How It Could Work**

Any constitutional bankruptcy law for the states should reserve power to the courts to permit states to impair obligations to the extent justified, but only to that extent. Otherwise, the law would subvert the Constitution, confound judges, and lead to unpredictable and politicized outcomes for markets.



Prospective bill sponsors and relevant committees of jurisdiction would be well served to assess the checks and balances provided by the courts in Chapter 11 before simply incorporating a subset of bankruptcy provisions for states as it did with Chapter 9. In the corporate context, courts can remedy abuses of creditor rights by authorizing a creditor-sponsored plan, the appointment of a trustee, or even liquidation. None of these features is available in Chapter 9 due to state sovereignty, but that should not be the end of the analysis.

Lawmakers should consider that when a state seeks to break its own contractual commitment today, it must demonstrate in a court of law that the impairment is both reasonable and necessary—terms that have an established body of jurisprudence. Even if an impairment is necessary, its reasonableness may depend on the specific commitment made and the context in which it was made.

For example, a public employee union that already provided concessions due to a state's recent financial distress should continue to be protected from a second bite at the apple in bankruptcy unless there is truly no other viable alternative. Similarly, a non-impairment commitment expressly provided by statute to induce lending, or the state's vesting of property interests in future benefits or revenues, should be considered superior on a relative basis to other claims in bankruptcy that enjoy no such protection.

As such, to the extent Congress considers a state-level bankruptcy law, lawmakers should be careful to ensure that a court retains the power to evaluate the policy decisions underlying a proposed bankruptcy plan in a manner consistent with the Contracts Clause. Furthermore, respecting state-law commitments and priorities given to creditors on a relative basis would be the best way to respect state sovereignty.

In this way, Congress can afford states bankruptcy relief to promote collective action to bind hold-outs while still safeguarding settled constitutional expectations. This can be done without offending state sovereignty because the state is already constrained by the Constitution in the absence of a new bankruptcy law.

If a state could demonstrate an impairment were reasonable and necessary, and the requisite creditor votes for the plan were obtained, the court would grant the federal discharge. But if it could not make the showing, the court would deny confirmation of that particular plan and the state would need to either formulate a better one or dismiss its bankruptcy case and revert to the status quo—no sovereign-bad feelings.

But if state-level bankruptcy law is drawn up in a way that gives states the unchecked right to impair their debt obligations, it will turn the Constitution on its head. And while creditors could try and invoke the protection of the Contracts Clause even if it were not codified in the new statute, this approach would create much greater uncertainty than if the law spelled out the constitutional obligations in the first place.

This is why Congress must act with precision rather than haste. Lawmakers must not be hypnotized by the mantra of state sovereignty without pausing to consider what constitutional protections constrain the states when they transact with private parties.

Should Congress opt for a quick fix, it will increase the cost of borrowing in all 50 states and destabilize the multi-trillion-dollar municipal bond market. There is a way to aid states, but it's not by passing legislation that inadvertently writes the Contracts Clause out of the Constitution entirely.

**Bloomberg Law**

by Susheel Kirpalani

July 17, 2020, 1:01 AM

*This column does not necessarily reflect the opinion of The Bureau of National Affairs, Inc. or its owners.*

Susheel Kirpalani, chair of the Bankruptcy and Restructuring Group at Quinn Emanuel, has served as legal counsel to stakeholders in major municipal restructurings involving the Commonwealth of Puerto Rico, Jefferson County, Ala., and Detroit. He testified before Congress on the fairness of Puerto Rico's bankruptcy law.

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## **Muni Market Niche Faces Biggest Test With Sales Taxes Crumbling.**

- **Governments' sales-tax backed bonds were seen as less risky**
- **With local collections down sharply, some now have doubts**

The shutdown of businesses across the country is casting a pall over a segment of the \$3.9 trillion municipal-bond market that had been seen as more insulated from risk: debt backed by sales-tax collections.

Illinois, Chicago, Puerto Rico and the state of New York are among governments that have issued such bonds. That allowed them to borrow at a lower cost than by selling debt backed only by the promise to repay, given that the dedicated revenue stream provided investors an extra bit of protection.

But the business closures that have raced through the American economy along with the coronavirus since March are promising to mark the biggest test yet of that premise. In May alone, the sales tax collections of states tumbled by \$6 billion, or 21%, from a year earlier, according to an analysis by the Urban-Brookings Tax Policy Center.

Matt Fabian, an analyst for Municipal Market Analytics, said the sales-tax bonds were designed to be insulated from the state and city budgets, with the revenue behind them typically well above what's needed to cover the debt payments.

"But sales tax bonds weren't built with the pandemic in mind," Fabian said. "You can't have sales transactions go down 80% for months without problems."

The risk hasn't yet had a big effect on the price of the securities, which have rebounded along with the broader market from the March crash triggered by the first wave of shutdowns.

Bonds sold by Chicago's Sales Tax Securitization Corp. that mature in 2040 are trading for yields around 3.6%, down from as much as 4.24% early last month, according to data compiled by Bloomberg. The prices of those sold by still-bankrupt Puerto Rico have also rallied sharply back since March.

Fabian said the unprecedented declines in sales taxes makes it "very likely" that some governments will need to draw on reserves or see the ratings of the securities cut.

Dora Lee, director of research at Belle Haven Investments, which manages \$12.4 billion in muni bond assets, said the economic rout has cast some doubts on how the securities will fare.

“Now that there’s a potential for large revenue declines, I think investors are looking for credits that have more financial flexibility than a rigid pledged revenue stream,” she said. “We have been extremely cautious when looking at special tax bonds because it’s hard to know where the declines will bottom out and I suspect that other investors are in the same boat.”

## **Bloomberg Law**

Shruti Date Singh

July 15, 2020, 11:23 AM

To contact the reporter on this story:

Shruti Date Singh in Chicago at [ssingh28@bloomberg.net](mailto:ssingh28@bloomberg.net)

To contact the editors responsible for this story:

Elizabeth Campbell at [ecampbell14@bloomberg.net](mailto:ecampbell14@bloomberg.net)

William Selway, Amanda Albright

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## **[Fitch: Not-for-Profit Hospital Medians Improved Prior to Coronavirus](#)**

Fitch Ratings-New York/Austin-16 July 2020: Fitch Ratings is currently compiling the latest median financial ratios for its not-for-profit (NFP) hospital and health system portfolio, and early indications show across the board improvement among Fitch’s key rating metrics. The medians that will be profiled in our 2020 median ratio report are based on 2019 audited data and therefore do not reflect the impact of the coronavirus pandemic on hospital operating performance in 2020. The 2019 metrics highlight the stronger position in which NFP hospitals found themselves at the onset of the outbreak, providing some financial cushion to withstand pressures. We expect the 2020 medians will represent peak performance levels until the sector is able to recover from the effects of the pandemic on operations.

Audited data show that the sector had stabilized after a period of prior operational softness, with improvements first seen in our 2019 medians (2018 audited data). The 2020 medians are expected to show operating margin expansion driven by higher revenues and targeted cost reductions along with improvement in liquidity and debt service ratios due in part to a favorable investment market in 2019 and increased cash flow. This is despite robust capital spending that normally limits yoy improvement in the sector’s unrestricted liquidity levels and industry challenges such as a competitive labor market, high cost of speciality pharmaceuticals, modest yoy increases in contractual amounts, and the ongoing shift to value-based payments from fee-for-service.

[Continue reading.](#)

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## **[S&P U.S. Higher Education Rating Actions, Second Quarter 2020.](#)**

[View the Rating Actions.](#)

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## **[S&P U.S. Charter Schools Rating Actions, Second-Quarter 2020.](#)**

[View the Rating Actions.](#)

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## **[S&P Credit FAQ: Pension And OPEB Guidance In U.S. Public Finance Credit Analysis](#)**

On Oct. 7, 2019, S&P Global Ratings published “Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Benefit Obligations For GO Debt, Local Government GO Ratings, And State Ratings.” Here, we answer the most frequently asked questions from investors and other market participants.

Elsewhere, we have also provided an overview on our approach to U.S. state and local government pensions within the context of our three government criteria (see “Credit FAQ: Quick Start Guide To S&P Global Ratings’ Approach To U.S. State And Local Government Pensions,” published May 13, 2019).

### **Frequently Asked Questions**

#### **Will the guidance change over time?**

Yes, guidance may change over time. Specifically, the market periodically changes and the discount rate and long-term medical trend guidelines may be adjusted to align with updated capital market assumptions and medical trend models. It is important to note that, while we expect this discount rate guideline may continue to be updated periodically, it represents a long-term view of underlying risk.

#### **Why did the discount rate guideline change?**

The discount rate, generally equivalent to the assumed return on assets in the U.S. public sector, is equal to inflation plus the real return on accepted market risk for an individual pension plan. The guideline is updated for two primary reasons: the underlying long-term inflation assumption decreased to 2.4% from 2.6%; and updated market conditions reflect generally lower returns for a given level of risk.

#### **Will ratings change as a result of the published guidance, including periodic updates?**

We expect no rating changes due to the publication, or periodic update, of guidance, as the purpose of this guidance is to provide clarity on important pension and OPEB factors, including actuarial inputs, that we consider in applying our existing criteria. Our analysts consider the guidelines for assumptions and methods within the context of an obligor’s overall unique credit profile, including its ability to afford rising costs and proactive management measures to address them. Because guidance articulates and provides transparency about application of existing criteria, it does not necessitate a review of existing ratings covered by these criteria.

[Continue reading.](#)

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## **Public Pensions Face a COVID-19 Conundrum.**

### **Scholars disagree over how to deal with the threat of exhausting a plan's assets.**

Faced with depleting assets, and with state and local governments under fiscal pressure from the COVID-19 recession, public pension plan sponsors have some tough choices ahead of them in order to remain sustainable during economic uncertainty.

However, there are widely differing views among economic scholars as to what the most prudent strategy is for state and local governments dealing with low returns on pension investments, aging workforces, and pressure to build portfolios to cover promised future benefits—as well as other budgetary responsibilities.

Those conflicting views were on display at the 2020 Municipal Finance Conference, which was organized by thinkthank the Brookings Institution and held virtually earlier this week.

Louise Sheiner and Finn Schuele of the Brookings Institution's Hutchins Center on Fiscal and Monetary Policy and Jamie Lenney of the Bank of England expanded on their presentations from last year's conference, which argued that state and local government pension liabilities can be stabilized as a share of the economy with relatively modest fiscal adjustments.

They examined how the change in the economic landscape, such as lower interest rates, has affected pension sustainability. And, considering the fiscal distress most state and local governments are currently dealing with, they also looked into how reducing or putting a moratorium on pension contributions in the near-term to avoid bigger cuts to core services would affect that sustainability.

The three noted that pension contributions in 2019 for the US as a whole represented 4.7% of revenues raised from taxes and fees, which is a significant source of funds considering gross domestic product (GDP) is expected to be down approximately 6% in 2020, with state and local revenue down even more than that.

They argued that cutting back on pension contributions could “go a long way” toward mitigating spending cuts and considered the sustainability implications of putting a moratorium on pension contributions for three years.

Sheiner said that if plans are allowed to be less funded, but stable after a moratorium, it actually lowers the required contributions that must be made or, at worst, would only raise them a little. She said that this was because when rates of return are below economic growth, rates assets are expensive to maintain, and the moratorium reduces assets but makes everyone better off.

“This is probably not going to be the right thing to do for every plan,” she said at the conference. “But I think it's likely that is the right thing to do for many plans and it should at least be on the table.”

However, Robert Costrell and Josh McGee from the University of Arkansas disagreed with Sheiner, Schuele, and Lenney, arguing that perpetually rolling over pension debt puts a plan in a “precarious financial position” and significantly increases the chance it will run out of assets.

They said that if a plan runs out of assets, it would have to enter pay-as-you-go status, which means benefit payments would have to be made from the state or local government's annual budget.

“Pay-go is a huge risk,” McGee said during his presentation. “The benefit payments rate is a natural contribution threshold, but most governments are contributing far less than the pay-go rate. So if plans exhaust their assets, contributions would have to increase from around 25% of payroll to around 40% of payroll.”

To put this in context, McGee said that for teachers in Illinois, this would translate to an approximate \$1.3 billion increase, or a 25% increase in dollar terms. And for Pennsylvania teachers, that would be approximately a \$1.5 billion increase or a 30% rise in dollar terms.

“So this is a big increase that would be incurred if plans exhaust their assets completely,” he said.

## **Chief Investment Officer**

July 16, 2020

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### **Toll Roads With Fewer Cars an Unlikely Haven for Bond Buyers.**

- **Agencies were prepared with large cash balances on hand**
- **Americans buying goods online has helped boost trucking tolls**

Municipal-bond investors are scouring for pockets of the \$3.9 trillion market that are a haven from the coronavirus and its recession. Turns out toll roads may be a safe bet.

The nearly \$140 billion of debt sold for U.S. toll roads would seem like an unlikely place to shelter from the crippling economic side effects of the pandemic. Cars have disappeared from roads and highways across the country as tens of millions of Americans work from home, have lost their jobs or are bunkered down to avoid infection.

But operators of toll roads were prepared by keeping large cash balances to help them withstand shocks like the pandemic. The Oklahoma Turnpike Authority, one of the largest toll operators by mileage, had more than 590 days of cash on hand at the end of 2019, a figure it had gradually increased following the Great Recession a decade ago, according to data compiled by Bloomberg.

That's good news for bond buyers. GW&K Investment Management, which oversees more than \$30 billion in municipal bond investments, sees such debt as being well positioned even as toll operators report declines in business, said Sheila May, director of municipal bond research.

“This is a sector that traditionally has held a lot of cash,” May said, adding that her firm favors large toll operators serving metro areas.

Moody's Investors Service found that most of the publicly-owned toll roads it rates should be able to absorb a 30% revenue decline before debt service coverage ratios reach 1-times or below. Even then, the agencies' existing cash would help them avoid tapping debt service reserve funds right away, the rating company said in April.

Commercial trucks have also helped blunt the impact of the pandemic on toll agencies' finances as Americans turned more and more to online shopping to avoid potential infection from the coronavirus. The American Trucking Associations' index of truck tonnage jumped 8.7% in June, the most for a month since 2013, according to a July 21 report. The trade group said the increase wasn't enough to put trucking tonnage to pre-pandemic levels.

Wendy Smith, director of finance and revenue at the Oklahoma Turnpike Authority, said trucking activity has helped prop up the agency. Revenue from trucking customers dropped 11% in April but was down less than 1% for June.

“It really did start to come back,” Smith said.

Using a seven-day rolling average, the authority’s overall revenue is down between 5% and 8%, a level of decline that Smith said could last for the rest of the year. She said she expects the authority will be able to avoid fare hikes.

Additionally, this summer, as the economy reopens in some parts of the country, people using their cars to go on day trips or stay-cations rather than fly may also support the sector.

GW&K’s May said the firm has been looking for “greenshoots” during the downturn. They’re taking into consideration potential changes in people’s habits. “We have to look under the hood a bit more,” she said.

## **Bloomberg Markets**

By Amanda Albright

July 23, 2020, 10:30 AM PDT

— *With assistance by Sophia Sung, and Matthew Begley*

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## **[Investors Have More Faith in Bonds Issued by Airports Than Might be Expected.](#)**

### **KEY POINTS**

- Airports offer essential services, but in a time when travel is down, some investors worry they may be highly risky investments.
- But municipal bond experts and traders say the bonds of airports are trading well, in fact outperforming the broader muni market in June and July.
- Airports typically have high levels of cash on hand, and that has helped insulate them from the loss of revenues.

With airlines suffering from low traffic and billions in losses, investing in airports right now may seem unwise.

But, in fact, airport bonds have been outperforming the broader municipal bond market. Strategists say it’s because airports went into the Covid crisis with a lot of cash on hand and that should help them weather the storm.

According to Moody’s, airports had an average more than 659 days worth of cash.

“I would describe that as a very good cushion of liquidity,” said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities. He said that data on cash holdings was from fiscal year 2018, and the airports were able to build up their hordes even more in 2019.

“They’ve had several years since the end of the last recession, where enplanements were relatively

higher. But plenty of them also had infrastructure upgrades they wanted to do,” said Kozlik. “It seems they took advantage of a situation where activity was higher-than-expected, but they also socked some money away.”

Airport bonds were among the hardest hit when the credit markets seized up in February and March, as investors feared the worst for air travel. While air traffic is still weak and enplanement, or passenger boardings, are low, the airport bonds have been able to recover.

“Right now, investors are leaning toward the larger airports,” said Kozlik. “I think the reason is because the market opinion is such they feel there’s less risk in a situation where enplanements might continue to be lower than what we’ve seen pre-Covid. I think folks believe those large airports aren’t going anywhere. There’s just more positive sentiment for those larger airports as a result.”

A \$460 billion offering Thursday for Dallas-Fort Worth International Airport, for instance, was met with strong demand. The cities of Dallas and Fort Worth issued the of Series 2020B joint revenue refunding bonds for the airport. According to Bond Buyer, they were repriced to yield from 0.27% with a 5% coupon in 2021 to 1.97% with a 4% coupon in 2040. The 2045 maturity was repriced to yield 2.12%, with a 4% coupon.

There were also bonds issued for the airport last week. The spread on the 10-year revenue bond issued was just 63 basis points above the AAA rated muni benchmark, according to Kozlik. The bonds were rated A1 by Moody’s and A by Standard and Poor’s. Another \$1.14 billion offering is expected for the airport next week.

“Along with the boarder market, the airport sector has tightened up quite a bit,” said Jeffrey Lipton, head of municipal research and strategy at Oppenheimer. “We are seeing evidence that a number of airport bonds are being priced tighter than some other higher end credits.”

While airlines were given relief under the CARES Act, Congress also gave funds to airports. Kozlik said the funds amounted to 22% of revenues for a list of airports he follows.

Rating agencies have a negative outlook on the sector, and strategists warn there could be downgrades. Not all airports are attractive, and investors should pick among the better rated, bigger airports.

“Heading into Covid-19, I was a fan of the airport sector, and I’m still a fan of the airport sector,” said Lipton. “But we have to be more selective now. If you look at gateway airports, those aren’t going anywhere.” Gateways would be Los Angeles or San Francisco or New York.

Moody’s warns that airports could be at risk if they have a high concentration of service by one airline, since an airline can cancel where it travels to and from. They also are at risk if an airline undergoes massive layoffs.

“Though large airports can bear the risk of high airport concentration, they also benefit from being essential to the airline’s network and are typically highly profitable for airlines,” Moody’s wrote. “However, small airports with high airline concentration do not share this benefit. We expect the hubs that are the most profitable for airlines to see quicker recovery from the effects of the coronavirus because of their outsized contribution to the airlines’ route networks and profitability.”

In a note from earlier this month, Moody’s said Charlotte, N.C. Airport Enterprise, which it rates Aa3 stable, and Dallas-Fort Worth are among the airports with the best recovery in enplanements so far.

“Small airports in highly competitive markets are likely to face some service consolidations by the



airlines into larger airports, as demonstrated by JetBlue's decision to consolidate its West Coast operations in Los Angeles Departments of Airports- Los Angeles International Airport Enterprise (Aa2 stable) and moving away from LGB (Long Beach Airport)," Moody's wrote.

Hawaiian airports, which posted the sharpest overall drop in passenger volume in April and May, are likely to see the slowest recovery in passenger volume as long as the state's stringent travel restrictions remain in place," noted Moody's. Hawaii requires that travelers to the state be quarantined for two weeks.

Lipton said airports are difficult to analyze because they have very different revenue streams that go into their debt service.

"Revenues come from parking, revenues can come from hot dogs being sold, alcohol and various products you see in the airports. Often times, they have minimum guarantee revenue agreements" with concessions, he said. They also collect landing fees, and can pass along some of their costs by raising fees.

Lipton said there could be downgrade activity affecting airport bonds. "I think it's going to be confined to a single notch. We're not ruling out downgrades, but those downgrades would probably be confined to a single notch as opposed to multiple notch downgrades. I think the sector overall will display relative resiliency throughout this cycle," Lipton said.

Kozlik said it helps airports to have strong carriers. In the years before Covid, airports were breaking financial records as enplanements grew. Kozlik said the airports that will be better positioned to take advantage of the recovery will be those that stress sound finances and are located in regions and cities with industries and demographic bases that are growing.

In addition to different revenue sources, airports also had widely different amounts of cash. For fiscal year 2018, Miami International, for instance, had 318 days worth of cash, while Boston's Logan Airport had 628 days, according to Moody's data. Hartsfield-Jackson in Atlanta had more than 1,000 days worth of cash. This is based on fiscal year 2018 data.

Kozlik said some investors are avoiding airports because of the hit to travel. "That may not be the way to look at it. Look at the underlying credit fundamentals," he said. Airports, like water and sewer or toll roads issue revenue bonds.

"Typically, a revenue bond, all things being equal ... you're going to get a little more spread compared to the general obligation bonds, and then when you go out the risk spectrum, that's going to increase the amount of spread you're going to get," said Kozlik.

Lipper said munis overall so far are returning 1.21% month to date, based on Bloomberg Barclays data. The transportation sector, including airports, has returned 1.29% in the same period, through July 22. Health care, which outperformed in June at 2%, is returning 1.60% in July so far.

Revenue bonds typically lag general obligation bonds, but because of the outsized hit to revenue bonds earlier in the year, their comeback has helped them outperform GO debt.

**cnbc.com**

by Patti Domm

JUL 24 2020

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## **SIFMA: Joint Support of LOCAL Infrastructure Act**

### SUMMARY

SIFMA as part of a joint industry letter provides comments to the Honorable Mitch McConnell and the the Honorable Charles Schumer in strong support of S. 4129, the Lifting Our Communities through the Advance Liquidity for Infrastructure Act (LOCAL), as well as in support of S. 4203, the American Infrastructure Bonds Act.

[Read Letter.](#)

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## **States, Cities Shelve Public Works as Recession Hammers Revenue.**

- **Without aid, austerity promises to exert a drag on recovery**
- **Most cities reported rolling back infrastructure spending**

America's states and cities are putting infrastructure projects on hold as tax revenue tumbles, threatening to deal another setback to an already sputtering economy.

New York's Metropolitan Transportation Authority, the operator of the nation's largest public transit system, is putting its \$51.5 billion, five-year capital program on hold as the pandemic decimates subway ridership. The Port Authority of New York and New Jersey said in securities filing that its plans may also need to be delayed. In Massachusetts, the agency that runs Boston's Logan Airport said it's cutting \$100 million in spending and shelving \$1 billion of projects.

Across the country, about two-thirds of cities reported delaying or canceling infrastructure and capital spending since the coronavirus drove the nation into a recession, according to a survey by the National League of Cities. At least \$9 billion of construction work on transportation projects has been shelved so far, according to the American Road & Transportation Builders Association.

David Berger, mayor of Lima, Ohio, with 36,000 residents, said the city doesn't have the money for large-scale infrastructure projects without federal help and needs to reduce its payroll by 10% to make up for lost revenue.

"Our budget has been severely impacted," he said.

The cutbacks illustrate how local budget deficits will weigh on the recovery, just as they did in the wake of the last recession, if aid isn't forthcoming from Washington. While the U.S. House approved a \$3.5 trillion stimulus measure that provides about \$1 trillion to states and cities, Senate Republicans intend to scale the spending back and are balancing the aid against other priorities, including calls to extend federal unemployment benefits that are set to lapse.

The cutbacks also threaten to worsen the state of America's infrastructure, which the American Society of Civil Engineers already said needed \$2 trillion of additional investment over 10 years. While President Donald Trump promised to deliver a major infrastructure program when he ran for office, none has been enacted.

With interest rates holding at the lowest in decades, governments have been aggressively refinancing their debts to save money. But even during the economic expansion they were loathe to

take on new obligations, which has kept the amount of state and local government debt outstanding roughly steady for the past decade.

Randy Gerardes, head of municipal strategy at Wells Fargo Securities, said the outlook for borrowings to fund new projects looks grim.

“Generally, they’re trying to deal with the virus and what’s right in front of them,” he said.

## **Bloomberg Markets**

By Emmy Lucas and Amanda Albright

July 20, 2020, 7:35 AM PDT

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### **[Transportation Agencies Are Bracing For The Worst.](#)**

Widespread public fear of traveling and especially using public transportation paired with the shelter-in-place mandate in most metropolitan cities are two key detriments for transportation agencies around the United States.

In the first stimulus round of funding, the federal government allocated around \$25 billion for transit agencies in the United States, which kept them afloat for the time being. However, with a prolonged shutdown and no clear solution in sight, many agencies are contemplating different ways to cut costs, including service cuts. Furthermore, transportation agencies are also requesting additional federal help to sustain their operations until their ridership levels start rising to normal levels.

In this article, we will take a closer look at the impact of COVID-19 on various transportation agencies and what to expect in the near future.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Jul 22, 2020

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### **[FY21 Appropriations Bill Calls for Billions in Transportation Funding - Nossaman](#)**

The full House will consider the FY21 Transportation, Housing and Urban Development (THUD) bill that the House Appropriations Committee approved with a final vote of 30-22 on July 14, 2020. For FY2021, the THUD bill provides a total of \$107.2 billion in total budgetary resources for the U.S. Department of Transportation, including:

- \$1 billion for National Infrastructure Investments (TIGER/BUILD);
- \$3 million to support the Highly Automated Systems Safety Center for Excellence;
- \$10 million for competitive Transportation Planning Grants to assist areas of persistent poverty;

- \$18.1 billion for the FAA, including \$1.5 billion for Aviation Safety and \$500 million for discretionary Airport Improvement Grants;
- \$62.9 billion for FHWA, including \$61.9 billion, consistent with the INVEST in America Act, for programs funded from the Highway Trust Fund, and \$1 billion for discretionary Highway Infrastructure Programs, a decrease of \$1.2 billion below the FY 2020 enacted level, but \$1 billion above the President's budget request;
- \$881 million for the Federal Motor Carrier Safety Administration;
- \$3 billion for the FRA, including \$500 million for Consolidated Rail Infrastructure and Safety Improvements, \$200 million for Federal-State Partnership for State of Good Repair, \$2.05 for Amtrak, consisting of \$750 million for Northeastern Corridor Grants, and \$1.3 billion for National Network Grants;
- \$18.9 billion for FTA, including \$15.9 billion for Transit Formula Grants consistent with the INVEST in America Act, \$2.2 billion for Capital Investment Grants, and \$510 million for Transit Infrastructure Grants;
- \$40 million for Saint Lawrence Seaway Development Corporation; and
- \$1.2 billion for Maritime Administration, including \$314 million for Maritime Security Program, \$300 million for Port Infrastructure Development Program, and \$389 for schoolship construction.

The legislation also provides \$26 billion of emergency funding to support economic recovery from the coronavirus pandemic by investing in transportation infrastructure, including:

- \$3 billion for National Infrastructure Investments (TIGER/BUILD);
- \$10.5 million for DOT Cyber Security Initiatives;
- \$500 million for FAA Facilities and Equipment;
- \$2.5 billion for FAA Grants-in-Aid for Airports;
- \$5 billion for Consolidated Rail Infrastructure and Safety Improvements;
- \$100 million for Magnetic Levitation Technology Deployment Program;
- \$5 billion for Northeast Corridor Grants to Amtrak;
- \$3 billion for National Network Grants to Amtrak;
- \$5 billion for the Capital Investment Grants;
- \$125 million for Maritime Administration Operations and Training;
- \$345.5 million for State Maritime Academy Operations;
- \$100 million for Assistance to Small Shipyards;
- \$1 billion for Port Infrastructure Development Program; and
- \$7.5 million for the DOT Office of Inspector General.

Additionally, the bill adopted by the full Committee includes amendments requiring the use of masks and enhanced sanitation measures on airlines, Amtrak, and in large transit agencies.

The same day the THUD bill passed out of committee, the American Public Transit Association (APTA) sent a letter to congressional leadership requesting \$32-36 billion in additional transit funding. Estimates of the pandemic's devastating financial impact on transit include: \$700-800 million/month loss by New York MTA, \$1.8 billion loss over two years for Los Angeles County MTA, \$500-\$800 million loss through 2023 for Southeastern Pennsylvania Transportation Authority, \$100-150 million deficit in 2021 for Regional Transportation District of Denver, and \$975 million deficit over a three year period for Bay Area Rapid Transit.

**Nossaman LLP**

By Donna Brady on 07.22.2020

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## **What Investors Want to Know: U.S. Transportation and the Coronavirus Crisis (Questions from Investor Discussions)**

[Read the Fitch Q&A.](#)

Tue 14 Jul, 2020 - 8:45 PM ET

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### **Fitch: Coronavirus-Induced Travel Stoppage Clouds U.S. Transportation**

Related Fitch Ratings Content: [What Investors Want to Know: U.S. Transportation and the Coronavirus Crisis \(Questions from Investor Discussions\)](#)

Fitch Ratings-Austin-14 July 2020: With non-essential travel largely ground to a halt due to the coronavirus, the ability of transportation segments to maintain revenues and passenger traffic will be an increasing challenge according to a new report that addresses questions Fitch Ratings has received from investors over the health of transportation infrastructure as fallout from the pandemic continues.

The investor questions include a query about U.S. airports' ability to fund capital projects, which will face a stiff test in the near term because pay-go funding liquidity is under strain against the volatile capital markets. 'Federal monies that airports can use for any lawful purpose and existing funds held in unrestricted reserves and construction accounts will soften the blow somewhat,' said Senior Director Seth Lehman. 'That said, obtaining broad airline support will be more difficult until the aviation environment recovers.'

As a result, airports are likely to either defer expansionary projects or scale back less essential projects altogether to offset cash flow weakness. Examples include capital projects at LAX (Midfield Concourse), New York's LaGuardia Airport (Central Terminal) and Kansas City, all of which are likely to continue given the funding was covered from previous bond issues, which is leading investors to inquire as to what happens to completion prospects once the funding well runs dry for these projects.

The CDC's current "no sail order" has put a lid on cruise travel through at least Sept. 15 and will put substantial pressure on cruise operator passenger levels through at least the end of the third quarter. As a result, investors are asking how this will affect cruise ports over time. 'Ports are shielded to some extent thanks to minimum annual guarantees with cruise operators, though most cruise ports were operating well above their minimum annual guarantees level in recent years,' said Lehman. 'Cruise lines at some ports invoked force majeure clauses under their contracts due to the coronavirus, which may provide cruise lines relief from meeting their minimum annual guarantee levels during their contract year if cruise operations are suspended for a long period.'

This also brings into question how traffic for nearby toll roads will be affected if cruise demand continues to hover at around 50%. 'Lower cruise demand will undoubtedly have an effect, but it is doubtful it would be sufficient in isolation to lead to negative rating actions for toll roads,' said Lehman. 'Regions that serve large numbers of cruise passengers like Miami and Fort Lauderdale have a significant tourism component to their economies, but tend to be midsize to large and growing with increasingly diverse economic activity.'

Fitch will continue to maintain an active dialogue with investors as the fallout of the pandemic plays out for transportation infrastructure over time. 'What Investors Want to Know: U.S. Transportation and the Coronavirus Crisis' is available at 'www.fitchratings.com'.

Contact:

William Schmid  
Associate Director  
+1-512-813-5704  
Fitch Ratings, Inc.  
111 Congress Avenue, Suite 2010  
Austin, TX 78701

Seth Lehman  
Senior Director  
+1-212-908-0755

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:  
sandro.scenga@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **[Congress Considers Additional Support for Tax-Exempt Issuers and State and Local Infrastructure Projects during COVID-19 Recovery.](#)**

Two bills from the House of Representatives (H.R.2, the Moving Forward Act, and H.R.3967, the Municipal Bond Market Support Act) and two from the Senate (S.4203, the American Infrastructure Bonds Act, and S.4129, the Lifting Our Communities through Advance Liquidity ("LOCAL") for Infrastructure Act) could have significant effects on state and local government bond issuers and developers of infrastructure, if enacted, as lawmakers continue to address financial hurdles facing issuers related to the COVID-19 pandemic. This alert will discuss some of the significant provisions of each bill and how each could affect state and local government issuers, as well as certain 501(c)(3) conduit borrowers.

### **H.R.2, the Moving Forward Act**

On June 30, 2020 the House of Representatives voted to pass [H.R.2 the Moving Forward Act](#). The 2,300 page bill dedicates \$1.5 trillion over the next five years to dramatically improve and develop American infrastructure.

The Moving Forward Act introduces taxable "qualified infrastructure bonds," under which the Treasury Department would make direct payments to issuers to offset a portion of the interest paid by issuers on such bonds. Under the Moving Forward Act, a qualified infrastructure bond is a bond (1) that would otherwise be exempt from taxation under existing IRS rules and (2) which 100% of the net proceeds are to be used for capital expenditures or operations and maintenance expenditures in connection with capital expenditures. This program is similar to the Build America Bonds program that expired in 2010. The direct payments would begin at 42% of the interest on the bonds, decreasing over seven years to 30%.

The Moving Forward Act proposes the reinstatement of tax-exempt advance refundings, which were eliminated after the passage of the Tax Cuts and Jobs Act of 2017. In addition, the Moving Forward

Act would also nearly double the annual volume cap on Private Activity Bonds allotted to the states. Finally, the legislation would greatly expand the New Markets Tax Credit and the Historic Tax Credit programs.

#### **S.4129, the LOCAL Infrastructure Act**

On July 1, 2020, Mississippi Senator Roger Wicker introduced S. 4129, the [LOCAL Infrastructure Act](#). The LOCAL Infrastructure Act, like the Moving Forward Act, proposes the elimination of the Tax Cuts and Jobs Act 2017's repeal of tax-exempt advance refundings. It would permit issuers to refinance certain outstanding obligations while maintaining their tax-exempt status. These actions could, potentially provide significant cost savings that issuers could use to fund additional infrastructure, education, healthcare, or other capital improvements.

#### **S.4203, the American Infrastructure Bonds Act**

On July 8, 2020, Senator Wicker and Colorado Senator Michael Bennet introduced S.4203, the [American Infrastructure Bonds \("AIB"\) Act](#), a bipartisan bill which substantially expands upon the "qualified infrastructure bonds" provision of Moving Forward Act.

Under the AIB Act, state and local governments would be permitted to issue taxable American Infrastructure Bonds ("AIBs") for any public expenditure that is eligible to be financed with tax-exempt bonds. This program is also modeled after the Build America Bonds program. However, unlike the Moving Forward Act, proceeds of AIBs are not limited to expenses related to capital expenditures, permitting issuers to use bond proceeds on a wide array of public projects. However, the direct payments under the AIB Act are slightly less than under the Moving Forward Act, beginning at 35% of the interest on the bonds, decreasing over six years to a revenue neutral 28%.

#### **H.R.3967, the Municipal Bond Market Support Act**

A fourth bill introduced in the House last year also could provide additional support for certain non-profit and small issuers in their COVID-19 recovery. H.R.3967, the [Municipal Bond Market Support Act](#), introduced by Alabama Representative Terri Sewell and New York Representative Tom Reed in July 2019, would increase the annual limit for certain bank qualified borrowing for small issuers and increase the availability of tax-exempt debt for 501(c)(3) organizations.

Section 265 of the Internal Revenue Code currently permits issuers that issue less than \$10 million in tax-exempt obligations annually to designate certain bonds as "qualified tax-exempt obligations." This designation provides an incentive for banks to purchase debt of these "qualified small issuers" by permitting the banks to deduct 80% of the carrying costs of these obligations. These bonds typically bear interest at lower rates due to their attractive tax-exempt status.

Two large hurdles make taking advantage of qualified tax-exempt obligations particularly difficult for many small issuers. First, the \$10 million dollar limit has not been indexed for inflation since its enactment in 1986, meaning that over time, many issuers have become too large to qualify as a qualified small issuer. The bipartisan Municipal Bond Market Support Act proposes to adjust the limit up to \$30 million in annual tax-exempt debt and index the limit to inflation to prevent small issuers from losing their qualified status over time.

Second, 501(c)(3) borrowers of tax-exempt conduit issues are pooled together in determining if the conduit issuer may designate the issue as a qualified small issue. The act proposes to count each 501(c)(3) conduit borrower as a separate issuer for purposes of determining whether conduit debt may be designated as qualified tax-exempt obligations. This change would substantially increase the number of nonprofit organizations able to take advantage of the program.

#### **Conclusion**

Each of these legislative items could prove helpful for issuers that have been forced to put critical infrastructure projects on hold due to capital markets drying up in the wake of COVID-19 by increasing the number of prospective investors in their obligations. Ultimately, these bills reflect Congress's continued efforts to stimulate state and local economies throughout the country. The bipartisan support of these bills strongly suggests that some form of additional support is likely forthcoming, and issuers should maintain contact with their bond counsel and advisors in order to stay prepared for any enacted legislation.

## **Frost Brown Todd LLC**

Authors: Denise Y. Barkdull David A. Rogers Michael D. Elliott Michael A. Brockman Emmett M. Kelly

Jul 16, 2020

For updates on the status of the proposed legislation or other information on tools available to government issuers to address financing and cash flow issues related to COVID-19, contact Denise Barkdull, David Rogers, Emmett Kelly, Michael Elliott, Michael Brockman, or any attorney in Frost Brown Todd's Public Finance industry team, Government Services practice group or the Public-Private Partnerships (P3) industry team.

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## **[How Covid-19 Could Revive PPPs in the US Infrastructure Market.](#)**

*US infrastructure has been badly hit by the Covid-19 outbreak, but there are hopes that the post-pandemic environment will see a refreshed approach to public-private partnership (PPP) projects, as Viola Caon reports.*

As has been the case in many countries around the world, the US transport sector has taken a strong hit from the Covid-19 outbreak.

The American Road and Transportation Builders Association reported in July that 14 states and 19 localities cancelled or delayed more than \$8.5bn-worth of work planned in the sector due to the outbreak.

While new airport projects are expected to take the biggest hit, works in other sub-sectors were mostly only delayed, and in some cases the quietness brought on by the lockdown meant that some projects were completed ahead of schedule.

The infrastructure investment community does not see this as the end of greenfield public-private partnerships (PPPs) in the country, but warns that federal government support is strongly needed.

However, some point out that an opportunity may be arising from the crisis for the public and private sectors to work more efficiently together.

### **Availability payment versus traffic risk**

Before Covid-19 struck, the US was experiencing what looked like the start of a promising season for much-needed airport renovation and expansion projects. Some of these activities, including capital projects at Los Angeles airport – LAX (Midfield Concourse), New York's LaGuardia Airport (Central Terminal) and JFK International, and Kansas City International Airport are likely to continue given that the funding was covered from previous bond issues.



Across the sector, availability payment projects – where the private sector is reimbursed by the public sector through a predetermined performance-based payment plan – are likely to be favoured in the medium term over traffic and demand risk projects, where revenues depend on traffic and user demand.

“Investors, whether foreign or domestic, will likely prefer availability payment projects over traffic risk ones,” says Paul Epstein, a partner at law firm Shearman & Sterling’s project development and finance practice. “It should be noted, however, that certain investors in the PPP space have always been more comfortable with the former rather than the latter, and Covid-19 has just emphasised this preference.

“It will be interesting to see if hybridised projects gain pace in the future as a result of the virus outbreak,” he adds.

Managing partner at fund manager Upper Bay Infrastructure Partners Mario Maselli says that in terms of live projects, even the ones that have just an availability payment component are going ahead.

“We are involved in a rail project in North America, which is going ahead according to schedule as the final product is on an availability payment basis,” he adds. “Another tunnel project that we were looking at was heavily competed for and while it is not an availability payment situation, it guarantees a payment stream over the next ten years, which is pretty rare in transport these days.”

Other transport projects at procurement stage include the Capital Beltway and I-270 Corridor in Maryland – a traffic and revenue risk project – which sources say has attracted less interest and is likely to proceed more slowly than the SR 400 Express Lanes in Georgia (an availability payment project).

While the first one has only attracted the interest of four consortia at the first round, the Georgia Department of Transportation Road P3 on 26 June shortlisted Metro-Atlanta Express Solutions (led by Spain’s ACS Infrastructure and Itinera Infrastructure); MW 400 Partners (led by France’s Meridiam); and North Link Partners (led by the UK’s John Laing Investments) for the second project’s final round.

### **Pipeline issues: An opportunity for renaissance?**

While projects that had already launched before the virus outbreak were able to proceed with varying degrees of difficulty, the biggest unknown is the extent to which new projects are going to come to market in the medium term.

David Baxter, sustainable PPP and development consultant and committee member of the World Association of PPP Units & Professionals, recently conducted a survey of 157 PPP practitioners across 69 countries on the status of the industry amid the pandemic.

Of transport, he says responses identified it as one of the most concerning but potentially one of the most promising sectors in the post-Covid world.

In advance of the launch of our FDI-focused site, please complete the following survey aimed at investigating how investment plans are changing in the wake of Covid-19.

Your participation is confidential and the survey will take no longer than 5-10 minutes to complete. As a thank you we will share a copy of the survey write up with you.

“Overall, PPPs are not going to die as a result of Covid-19,” says Baxter. “If anything, I believe we

are going to see a renaissance in the approach to PPP. This crisis might lead to the improvement in the interaction between the public and private sectors that the industry so desperately needs. Both sides have resources, but they are limited unless they join forces.

“Another theme to emerge strongly from the crisis is going to be innovation,” he adds. “The infrastructure sector, especially in the US and especially in transport, needs a lot of improvement and renovation. Sustainable and resilient transport PPPs are going to be a big trend, and it is likely to bring about more brownfield project consideration alongside greenfield projects.”

However, this is not the end for greenfield infrastructure either, Baxter argues.

“Mega, multi-billion-dollar projects are unlikely to come to market over the next four to five years during the resetting of post-pandemic priorities,” he says. “There is not going to be the money nor the appetite to finance those for a while, but there will likely be a focus on smaller projects on the greenfield side.”

### **Government support needed**

Whether big or small, infrastructure projects are likely to require support from the federal government if they are to carry on. An already well-trodden debate in the US, Covid-19 has further exposed the need for the central government to support the states and municipalities that are struggling to shoulder the economic burden of delivering the infrastructure programme that the country needs alone.

Achieving this is, however, easier said than done, according to many.

“Federal government intervention is what the industry should be focusing on right now,” says Kent Rowey, a partner at law firm Allen & Overy’s projects, energy and infrastructure practice. “The federal gas tax trust fund outlived its usefulness long ago. Reforms are needed, for instance, around private use limitations on tax-exempt bonds and increases in allocation for wider sector eligibility for private activity bonds where the federal government would be able to use existing funding tools and subsidies to give a much-needed shot in the arm to the sector.

“There have been discussions, for instance, about including the airport sector in the Transportation Infrastructure Finance and Innovation Act (Tifia), which provides credit assistance for surface transport projects,” he adds. “However, it is probably unrealistic to expect legislation for infrastructure spending stimulus before the elections [in November].”

Partner at consultancy firm Arup Tim Treharne explains that a proposed relaxation of the requirements for Tifia is part of the major pending federal legislation regarding infrastructure stimulus, the \$494bn, five-year Invest in America Act, a reauthorisation of federal surface transportation programmes that was passed by the House Committee on Transport and Infrastructure on 18 June.

On 1 July, the House of Representatives passed the \$1.5trn Moving Forward Act, which included the Invest in America Act. However, President Donald Trump announced on the same day that he would veto the measure if it reached his desk.

As often happens, the infrastructure stimulus from the federal government has become caught up in disputes between the two parties. The industry agrees, however, that the way forward is for all parties to come together and contribute on infrastructure spending.

“A combination of expansion of existing federal funding programmes, such as Tifia, private activity bonds, and private equity and debt [present] the way forward for infrastructure in the US,”

concludes Rowey.

20 JULY 2020

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## **Recent Bipartisan Actions to Restore Tax-Exempt Advance Refundings and Authorize American Infrastructure Bonds: Butler Snow**

The “[Lifting Our Communities through Advance Liquidity for Infrastructure \(LOCAL Infrastructure\) Act](#)” (the “**LOCAL Infrastructure Act**”) and the “[American Infrastructure Bonds Act of 2020](#)” (the “**AIBs Act**”) were recently introduced in the Senate in a bipartisan effort to assist local governments as they respond to the COVID-19 pandemic. If enacted, the LOCAL Infrastructure Act would restore tax-exempt advance refundings for municipal bonds and the AIBs Act would create a new class of “direct-pay” taxable municipal bonds. This post summarizes both items as introduced.

### **Advance Refunding Bonds and The LOCAL Infrastructure Act**

When interest rates decrease, issuers often seek to refinance their outstanding debt. In some cases, previously-issued debt has call protections that prevent the debt from being paid off immediately until such call protections expire. Advance Refunding Bonds allow states, local governments, and other eligible issuers to refinance their existing debt at the lowest possible costs when market conditions favor refinancing. Under this structure, the proceeds of the Advance Refunding Bonds are used to purchase certain types of United States Treasury Securities that are deposited into a restricted escrow account until the prior bonds’ call protections expire and the previously-issued debt is redeemed.

Prior to 2017, Advance Refunding Bonds were allowed to be issued on a tax-exempt basis under the Internal Revenue Code and saved states, local governments, and other eligible issuers billions of dollars in financing costs. The LOCAL Infrastructure Act is a two-page piece of legislation that reinstates the ability of states, local governments, and other eligible issuers to issue Advanced Refunding Bonds on a tax-exempt basis.

United States Senators Roger Wicker, R-(MS), Debbie Stabenow, D-(MI), Shelley Moore Capito, R-(WV), Michael Bennet, D-(CO), John Barrasso, R-(WY), Bob Menendez, D-(NJ), Jerry Moran, R-(KS), and Tom Carper, D-(DE) introduced the LOCAL Infrastructure Act (Senate Bill 4129) on Wednesday, July 1, 2020. To read the full text of the bill, [click here](#).

The LOCAL Infrastructure Act has received support from several national organizations, including The National League of Cities, United States Conference of Mayors, National Association of Counties, National Conference of State Legislatures, American Hospital Association, American Public Power Association, American Society of Civil Engineers, American Public Works Association, National School Boards Association, Government Finance Officers Association, the National Association of Bond Lawyers, the Securities Industry and Financial Markets Association (SIFMA), and the National Association of Towns and Townships.

### **American Infrastructure Bonds and the AIBs Act**

On Wednesday, July 8, 2020, United States Senators Roger Wicker R-(MS) and Michael Bennet D-(CO) introduced the AIBs Act (Senate Bill 4203). The AIBs Act proposes the creation of a new class of “direct-pay” taxable municipal bonds known as American Infrastructure Bonds. To read the full text of the AIBs Act, [click here](#).

As proposed, American Infrastructure Bonds would be “direct-pay” taxable bonds where the United States Treasury Department pays a percentage of the interest due directly to a state or local government issuer of American Infrastructure Bonds to offset the difference in the costs of borrowing on a taxable basis. All direct payments under the program would be exempt from sequestration. The proposed amounts of the direct payments would be as follows:

- For American Infrastructure Bonds issued **prior to** January 1, 2026, the United States Treasury Department would make direct payments to the issuer at 35% of interest payable on the bonds
- For American Infrastructure Bonds issued **after** December 31, 2025, the United States Treasury Department would make direct payments to the issuer at 28% of interest payable on the Bonds (estimated to be a revenue-neutral rate).

American Infrastructure Bonds would allow states and local governments to access a much larger universe of taxable bond investors that want to invest in infrastructure (including pension funds) that are not eligible to receive the tax advantages associated with traditional tax-exempt municipal debt. Further, American Infrastructure Bonds would be available to **all** state and local government issuers that want to issue American Infrastructure Bonds and that can find a bond buyer in the taxable bond market. There would be no allocation among the states and no application to a federal agency would need to be made.

As proposed, American Infrastructure Bonds could be issued for any public expenditures that would otherwise be eligible for financing on a tax-exempt basis, including roads, bridges, tunnels, canals, ports, water systems, sewage treatment facilities, storm water management systems, pipelines, utility system expansions and environmental and safety upgrades, long-term natural gas supplies for municipal utility gas distribution systems and electric generation facilities, long-term supplies of electricity for municipal electric utility systems including renewable energy projects, broadband and other telecommunications systems, rail facilities, subways, and other purposes.

The AIBs Act has also received support from several groups, including the National League of Cities, the National Association of Counties, the Government Finance Officers Association, the American Public Gas Association, the National Association of Bond Lawyers, the Bond Dealers of America, the American Society of Civil Engineers, the American Council on Education, the Securities Industry and Financial Markets Association, and the American Planning Association.

**Butler Snow LLP**

July 24, 2020

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### **[Three Measures in the House’s Infrastructure Package Most Fiscally Important to Cities and Towns.](#)**

*Through NLC’s Rebuild With Us campaign, local leaders are asking Congress to pass a comprehensive infrastructure package that steps up federal support for transportation, water, broadband, workforce, and more. On July 1, the U.S. House of Representatives passed the Moving Forward Act (H.R.2), which makes significant investments to support cities’ infrastructure requests, but Senate action will be needed. This is the fourth in a series examining infrastructure components of the Moving Forward Act focused on finance priorities.*

On July 1, 2020, the House passed The Moving Forward Act (H.R. 2), a \$1.5 trillion infrastructure

package now awaiting action in the Senate. As Chair of the NLC Finance Administration and Intergovernmental Relations (FAIR) Committee, I was pleased to see several legislative priorities we've advocated for prior to the passage of the Tax Cuts and Jobs Act (TCJA) in 2017 included in the bill. Relaunching the Build America Bonds program, restoring the tax-exempt status for Advance Refunding Bonds, and extending the New Market Tax Credit are all priorities that will improve the fiscal health of localities across the nation. As city leaders, and as we grapple with the costs associated with COVID-19, we must champion H.R. 2. Our constituents are counting on us.

A critical priority of the infrastructure package is relaunching the **Build American Bonds** (BABs) Program. Favorable especially to local and state government issuers, BABs are taxable municipal bonds that previously included federal tax credits or subsidies for either the bondholder or the issuer. Seen widely as an alternative to traditional tax-exempt financing, BABs allow for decreased borrowing costs with increased savings for the locality.

The program expired in 2010, but as of 2019, nine Texas cities had BABs outstanding, with a total principal exceeding just over \$2.1 billion with total payments peaking at \$4.01 billion. Among these nine Texas cities, three are in the top ten most populous cities in the United States (Houston, San Antonio, and Dallas). Also included is San Marcos, frequently named among the nation's fastest growing localities. These cities and their respective regions are experiencing tremendous population growth – and that's just in Texas.

It's critical that we as city leaders continue to make infrastructure development a policy priority interconnected with broader issues such as quality of life and equity. With an increasing demand, the fiscal bill for much of our current infrastructure came due years – and in some cases, decades – ago.

For small and large issuers alike, BABs offset many of the fiscal challenges communities across the nation saw as a result of the Great Recession. Citizens, weary of traditional markets, turned to the municipal bond market, and local governments turned to BABs to attract investment to offset costs associated with large-scale investments in our infrastructure. BABs are a fiscally responsible tool we must bring back.

**Advance Refunding Bonds** have been a longstanding tool in local governments' tool chests as well, allowing issuers to take advantage of lower interest rates while minimizing borrowing costs. Here in Houston, the city has realized more than \$900 million in present value savings in the last decade alone due to advance refundings. With the restoration of the tax-exempt status for advance refundings, those savings could be even higher.

In 2017, the Tax Cuts and Jobs Act (TCJA) removed the tax exemption for savings generated as a result of advance refundings. Similar to how a homeowner would refinance their home with better interest rates, localities should be able to take advantage of the same benefit. Especially at a time when local governments are staring down rising costs associated with COVID-relief, among other large costs, restoring the tax-exempt status of Advance Refunding Bonds is a critical step in improving the fiscal health of our communities big and small.

Created in 2000 to attract private capital to economically distressed communities, the **New Markets Tax Credit** (NMTC) provides investors with a Federal tax credit that finance businesses such as manufacturing, food, retail, housing, health, technology and many others in low-income communities.

Since 2003, more than \$27 billion in investments have been deployed to communities and neighborhoods most in need. The Community Development Financial Institutions Fund (CDFI Fund)

estimates that for every dollar invested by the federal government, more than \$8 in private investment is realized. With roughly \$1.9 billion in annual federal spending dedicated to NMTC, the multiplier effect of this investment easily offsets the benefits realized by the community as a result of tax obligations forgiven for the new investor. This too is a positive cost-benefit tool intended to incentivize private investment and should be extended permanently.

As the Senate deliberates on the House-passed infrastructure package, many local leaders are still responding to everyday challenges in their communities. From addressing annual budget shortfalls, to funding retirement benefits and rising service demand, our cities and towns are facing a new reality: the pandemic caused by COVID-19. Many of our localities are facing fiscal hardship, and it is our Senators' obligation to our shared constituencies to pass this tangibly beneficial legislation.

## **National League of Cities**

July 13, 2020

About the Author: Chris Brown is the Controller for the City of Houston and Chair of NLC's Finance, Administration and Intergovernmental Relations (FAIR) Committee.

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### **To Survive Financial Storm of Virus, States Turn to Congress.**

State governments trying to weather the financial storm brought on by the coronavirus are borrowing billions of dollars and desperately trying to slash costs by furloughing workers, delaying construction projects, cutting aid to schools and even closing highway rest areas.

For many states, as well as local governments, the main hope for avoiding even deeper cuts is to get help from Congress, which returns from vacation this week.

In Nevada, lawmakers contending with a \$1.2 billion budget gap made deep cuts in a spending plan that was approved over the weekend after painful deliberations. They passed a resolution last week urging Congress to step in.

"We are forced to make impossible decisions regarding funding critical public health, education and more," Democratic Gov. Steve Sisolak said in a statement. "Congressional leadership must act to help us restore devastating reductions being made to fill this historic shortfall."

Before the pandemic, states generally were meeting revenue goals for their budget years. Now Congress has already allocated more than \$3 trillion in coronavirus aid to individuals, businesses and governments that went into financial shock last spring as much of the nation's economy shut down.

Unlike most states, the federal government is not required to have a balanced budget. The deficit this year is already a record \$2.7 trillion.

The House passed a bill in May to provide another \$3 trillion, with about a third of it going to state and local governments. Senate Majority Leader Mitch McConnell, a Kentucky Republican, is calling for a more modest package worth around \$1 trillion total. He has not announced details, but he has said that school funding is a priority.

Bipartisan groups including the National Governors Association and the National League of Cities,

along with a long list of businesses, want a major aid proposal. If it does not come through, they foresee harsh consequences.

States face a cumulative budget gap of \$312 billion over the next two years, and local governments would need nearly \$200 billion to meet their expenses, Moody's Analytics said in a report last month.

Without quick aid, the U.S. economic crisis could deepen, costing 4 million jobs in government and the private sector, according to the economic research arm of the credit rating agency.

Some other estimates, including one from the Center for Budget and Policy Priorities, put the state budget gap even higher — about \$555 billion for states alone over the next two fiscal years.

Governments with higher debt and smaller reserves have the greatest needs. Many conservatives are in no hurry to help them.

A group of more than 200 current and former state lawmakers joined with tea party leaders in signing a letter circulated by the American Legislative Exchange Council warning that "a federal bailout would only encourage this cycle of debt and spending to continue."

Meanwhile, state lawmakers, city councils and school boards are trying to balance their budgets with tax revenue dropping and expenses rising as the nation keeps fighting the virus.

In many cases, the answer has been furloughing or laying off employees.

By last month, there were about 1.5 million fewer people working for governments in the U.S. compared with February, according to seasonally adjusted data from the federal government. More than half the layoffs were in education.

Governments have also adopted budgets with an eye toward what may come out of Washington.

California, for instance, is requiring state government employees to take off two unpaid days each month, but those furloughs could be reduced or eliminated if federal help arrives.

New Jersey is one of a handful of states to authorize debt to keep basic services running, allowing borrowing of nearly \$10 billion over the next year, over the objections of some GOP lawmakers. The governor's office said that figure might be reduced if aid arrives.

Similarly, New York, which also is borrowing, and Missouri have budgets that call for cuts if not enough federal aid shows up.

Wyoming has closed highway rest areas at least through September, while Florida has halted work on a new courthouse in St. Petersburg, one of many construction projects put on hold around the country.

In Lexington, South Carolina, a community of more than 18,000, a park renovation has been put on hold, as have plans to buy new police cars as the town contends with lower local revenue and no word yet on how much it will get from the state government.

"Our municipal employees, who are awesome, will not be getting a raise this year, and that just breaks my heart," said Kathy Maness, a member of the town council and vice president of the National League of Cities, which is calling for \$500 billion in federal help just for cities and counties.

School districts across the country are wrestling with whether to hold classes remotely this fall or bring students back to campus. They are weighing health concerns as well as the cost of reopening. Teachers unions and the National School Boards Association have pegged reopening costs at more than \$100 billion.

Other public agencies are struggling too.

Transit systems have seen fare collections evaporate amid stay-at-home orders. Officials at Caltrain, a San Francisco Bay Area commuter rail line, said this week that they may have to end service after San Francisco supervisors blocked a tax increase to boost the agency's subsidy.

Maryland Gov. Larry Hogan, a Republican who serves as chairman of the National Governors Association, has been making weekly appeals for federal help on teleconferences between governors and the White House.

Last week, Hogan told Vice President Mike Pence it was "the number one issue for all of us."

**By The Associated Press**

July 20, 2020

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## [Local, State Aid In Question As GOP Loiters On Stimulus \(Radio\)](#)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses the lack of progress on Federal stimulus. Hosted by Paul Sweeney and Vonnie Quinn.

[Play Episode](#)

**Bloomberg Radio**

July 24, 2020 — 10:14 AM PDT

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## [American Cities See Economic Hit in Grim Mayors' Report.](#)

- **Report projecting high unemployment assumes tapering outbreak**
- **Municipal market is picking winners and losers, favoring AAA**

The coronavirus pandemic may lead to an 8.1% decline in the U.S. gross domestic product in 2020 and persistently elevated unemployment in cities, according to an [analysis](#) commissioned by the U.S. Conference of Mayors, underscoring the challenge facing investors and borrowers in the municipal-bond market.

The report lays out daunting scenarios for America's communities that may prove not dire enough, given that it assumes the outbreak will taper this year. Metropolitan areas will suffer a \$1.45 trillion drop in economic output in 2020, with the financial effects of the pandemic on par with the Great Recession a decade ago.

"The surge in Covid-19 infections and increases in hospitalizations and mortality threaten the



nascent recovery in economic activity that began in May, underscoring the existence of extraordinary uncertainty about the course of the pandemic and the economic outlook,” according to the report, which IHS Markit also prepared for the Council on Metro Economies and the New American City. “The forecast presented here assumes that the pandemic is gradually brought under control in the second half of the year, an outcome that remains in doubt.”

The mayors’ report adds to a series of pessimistic surveys from local governments grappling with the unprecedented health crisis. Counties face an estimated \$202 billion budget hit from the pandemic through fiscal 2021 due to lost revenue, extra costs and state funding cuts, according to a report released Tuesday by the National Association of Counties, a lobbying group.

As a result, buyers in the \$3.9 trillion municipal-bond market, which has rallied sharply from March, are favoring issuers more likely to prove resilient in the pandemic, said Parker Colvin, a managing director and underwriter at Raymond James Financial Inc., who said “demand is strongest for AA and AAA” general-obligation debt and essential service revenue bonds.

AAA bonds have gained 4.38% year to date while Baa securities are basically flat at 0.03%, according to Bloomberg Barclays indexes.

“Contrasting essential entities with those not considered so, municipals may soon experience ‘a tale of two markets’ moving forward,” wrote Matthew Gastall and Daryl Helsing, investment strategists at Morgan Stanley Wealth Management, in a note Wednesday.

Some cities, for instance, will be more hard hit than others because of factors such as reliance on sales taxes or economically sensitive industries and lack of reserves coming into the pandemic. According to the mayors’ report, the average unemployment rate this year will be above 10% in 161 metros, 42% of all. It will be above 8% in 75% of metros and above 6% for most areas.

Even if infections taper, metro job levels by the first quarter next year will remain 5.2% below that of the year earlier, about the same as was seen in the Great Recession, the report said. Chicago, Detroit and New York are among cities whose employment will remain more than 10% below the figure before the pandemic.

In a call to reporters Wednesday organized by the mayors’ group, city leaders stressed the need for additional federal aid.

“What all mayors are worried about is jobs, food, housing security,” said Greg Fischer, president of the group and mayor of Louisville, Kentucky. “We are talking about basics here in just maintaining a life, all of those are in danger without more direct federal assistance.”

## **Bloomberg Business**

By Romy Varghese and Danielle Moran

July 22, 2020, 10:18 AM PDT Updated on July 22, 2020, 11:30 AM PDT

— *With assistance by Emmy Lucas, and Amanda Albright*

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## **[Wave of Deficit Borrowing Coming From States Hit by Downturn.](#)**

- **New Jersey, New York, Illinois selling debt to plug shortfalls**

- **‘It’s pretty simple math,’ Citigroup muni executive says**

A wave of deficit borrowing is headed for the municipal-bond market to close gaping budget holes caused by the coronavirus shutdowns.

New Jersey lawmakers agreed last week to borrow \$10 billion to finance half of the state’s estimated budget gap. Illinois plans to sell as much as \$5 billion in notes to a municipal facility set up by the Federal Reserve. New York state authorized \$11 billion in short-term borrowing that may be refinanced on a long-term basis, if necessary, and New York City is seeking the legislature’s approval to borrow \$5 billion.

“It’s pretty simple math,” said Patrick Brett, the head of Citigroup Inc.’s municipal debt capital markets business. “Hundreds of billions of dollars of deficits opened up really quickly. They’re all not going to get plugged with cuts, they’re all not going to get plugged with tax increases.”

Unlike the federal Government, U.S. states are required to balance their budgets, though they frequently rely on short-term loans to cover temporary shortfalls.

Those deficits are poised to swell. With the coronavirus lock-downs decimating sales- and income-tax revenue and costs rising for healthcare, unemployment assistance and social services, municipalities will need at least \$500 billion in additional federal aid over the next two years to avoid inflicting a major blow to the economy, according to Moody’s Analytics.

When the economy slows, states typically terminate or furlough employees, put off public-works projects or borrow before raising taxes. Since the coronavirus pandemic hit the U.S., states and local governments have cut nearly 1.5 million jobs, far more than were eliminated after the last recession.

The size of the borrowing wave will depend on how much aid comes from Washington. Republicans and Democrats are negotiating to pass another round of economic relief during the last week of July.

Democrats in the House approved a \$3 trillion measure that included about \$1 trillion for state and local governments. Republicans have set a \$1 trillion ceiling on another stimulus. Barclays Plc municipal strategists estimate states and local governments will get \$200 billion to \$500 billion.

While most states began the fiscal year on July 1 with full-year budgets in place, coronavirus infections have accelerated in Florida, Texas, California and Arizona since mid-June, prompting renewed lockdowns and weighing on an economic recovery. Uncertainty over tax collections and spending on government services means states will likely need to meet in special sessions to revise their budgets, according to Municipal Market Analytics.

“The interesting stuff and the non-recurring stuff tends to happen in the mid-year sessions,” said Matt Fabian, a managing director at Municipal Market Analytics on a Thursday webinar.

While borrowing to fund operations is a negative sign to bond-rating analysts and investors, they may be more forgiving with states and local governments facing the biggest fiscal crisis since the Great Depression.

“People are viewing this as a one-in-a-century kind of event,” Citigroup’s Brett said. “Even many of those who would generally oppose deficit borrowing are saying this is an act of God, and we should borrow.”

**Bloomberg Markets**

By Martin Z Braun

July 17, 2020, 10:30 AM PDT

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## **Two Fed Programs Have Bought Only One Loan Each, Watchdog Says.**

- **Fed has made one Main Street loan, one state government loan**
- **Oversight panel questions whether standards need to be looser**

The Federal Reserve isn't moving quickly enough to get loans to cash-strapped small businesses and only one state government struggling to cope with the coronavirus crisis has been able to tap central bank funds, according to a panel created to monitor billions of dollars in aid approved in response to the pandemic.

Two of the Fed's programs have both purchased a single loan each — one to the state of Illinois through its municipal lending facility and a \$12 million package through its Main Street lending program, which only became operational on July 6, the Congressional Oversight Commission said in a report released Monday.

"Our initial reaction is that a purchase of one \$12 million loan over a week and one half seems like a small amount, given the economic challenges facing some small and medium sized businesses," the panel said in its third monthly report.

The group questioned whether standards for some businesses should be loosened, noting in the report that that some businesses too big to qualify for Paycheck Protection Program loans under current requirements — such as real estate firms, retailers with large amounts of inventory or new and growing businesses — would be good candidates.

### **Bond Market**

New Jersey, hard hit by an virus outbreak earlier this year, and Hawaii, which has struggled after effectively turning away tourists, have publicly expressed a desire to obtain funding through the Fed's municipal lending facility, but have yet to do so.

Fed Chairman Jerome Powell and Treasury Secretary Steven Mnuchin told the commission that the relatively low utilization could be because many jurisdictions have been able to obtain financing through the bond market, where interest rates have tended to be lower than through the Fed program, according to the report.

In previous reports, the panel has said that Fed and Treasury Department relief efforts might be falling short in helping small business and found that only a small fraction of the money allocated for loans has been spent. In the new report, it said the Fed has lent \$13.6 billion of the \$454 billion allocated for its programs.

The panel also criticized a requirement that it says doesn't do enough to require that firms taking the money to keep workers employed. Companies must make "commercially reasonable" efforts to maintain their payrolls, which Powell said was "hortatory," or essentially voluntary, the report said.

"It is clear to the Commission they are not going to impose mandatory payroll requirements on businesses" that used the Main Street lending program unless Congress mandates it, according to

the report.

## **Another Round**

The commission was created at the insistence of congressional Democrats during negotiations that led to approval of the \$2.2 trillion CARES Act stimulus package earlier this year. The new report comes as Congress begins negotiations over another round of stimulus, which Democrats say must include more money for states and local governments. President Donald Trump met with top Republican lawmakers on Monday to iron out differences over a GOP-only proposal.

Members have said the lack of a chairman has hampered the panel's ability to establish a strategy for policing the \$500 billion in bailout money. Joseph Dunford, a former chairman of the Joint Chiefs of Staff, withdrew from consideration for the post earlier this month.

The oversight panel has four members: Democratic Representative Donna Shalala of Florida; GOP Senator Pat Toomey of Pennsylvania; Bharat Ramamurti, a former aide to Senator Elizabeth Warren of Massachusetts; and GOP Representative French Hill of Arkansas.

## **National Security**

The panel also questioned whether shipping company YRC Worldwide Inc., was a good recipient of loan money meant for companies critical to national security. The company, which ships electronics and supplies to military locations around the world, is at risk for bankruptcy because of a heavy pension burden and has been rated non-investment grade for over a decade, according to the report.

The company, which received a \$700 million loan, was the first to receive funding from the \$17 billion allocated for national security companies.

"This loan may indicate that the Treasury believes the national security designation permits a much higher risk tolerance to provide relief to firms that were struggling well before the Covid-19 pandemic," according to the report.

Treasury has yet to lend any of the \$29 billion it has for airlines, but it has signed letters of intent from 10 airlines that would like to receive the money.

## **Bloomberg Politics**

By Laura Davison

July 20, 2020, 10:13 AM PDT Updated on July 20, 2020, 1:00 PM PDT

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## **[Congress Struggles With Covid Relief. How That Will Affect Some States and Their Muni Bonds.](#)**

Six states — New Jersey, New York, Illinois, Kansas, Oklahoma, and Louisiana — have a particularly pressing need for relief from the stimulus package currently being wrangled over by Senate Republicans and due to be released for negotiation and debate with Democrats next week.

The Republicans don't appear to want to provide new money to states, but do seem willing to give them more flexibility in how they spend the aid approved under the \$2.2 trillion Cares Act, passed in

March. Democratic leaders in the House, however, are pushing for more aid for state and local governments.

Failure to aid state and local governments may not hurt the municipal bonds of financially troubled states, but it may damage municipalities that depend on state aid, analysts say. At the same time, investors shouldn't fight the Federal Reserve, which has been supporting states by buying bonds.

As staggering unemployment and rising Covid-19 infections continue, state and local governments are in increasingly precarious positions. The demand for public services is as high as ever, while tax revenue is falling. Unlike the federal government, most states have balanced-budget requirements that mean declines in tax revenues, if not offset by increases in federal funding, must be met by spending cuts. While states aren't able to file for bankruptcy, municipalities can resolve problems with creditors via the bankruptcy route.

"Certainly compared to 2008, we went into this situation in a much stronger position across every municipal credit," says Cynthia Clemson, co-director of municipal investments at Eaton Vance Management. "But this was a very swift and violent downturn. We'll see budget gaps average 18% of state revenue. No question, there will be a continuing need for relief."

In a statement, Gov. Larry Hogan of Maryland and Gov. Andrew Cuomo of New York urged the Senate to include a \$500 billion state stabilization fund in the Covid-19 relief package, noting that the states employ more than 20 million people and that governors have already cut budgets and reduced payrolls by 1.5 million.

The Cares Act provided \$150 billion for states, but the money was restricted to Covid-19 uses. Most states didn't have much in Covid-related expenses, says Dan Clifton of consultancy Strategas, and even in states with large caseloads, governors said they wouldn't use all of the money. Clifton finds that given current tax-revenue forecasts, allowing states to apply Cares Act funding for any purpose and assuming they use their rainy-day funds, six states would still be in net deficit. All face different challenges: Louisiana and Oklahoma have been hit by the oil crisis. New Jersey, New York, Illinois, and Kansas have pension challenges, with underfunded plans facing the Covid-19 double-whammy of asset-price declines and falling interest rates exacerbating funding gaps.

Each state and related municipalities have thousands of obligations, and whether investors should stay away if additional aid doesn't materialize is a complicated question. "I could find literally hundreds of credits in each of these states that we would be comfortable buying," says Lyle Fitterer, co-manager of the \$1.1 billion Baird Short-Term Municipal Bond fund (ticker: BTMSX).

For example, states may have local credits that can still generate positive margins, says Fitterer.

And much depends on whether a state has the flexibility to potentially increase taxes and cut expenses, as well as the long-term economic impact of the recent shutdown. For example, while New Jersey and Illinois both have large pension issues, Illinois' state income tax is much lower than New Jersey's. That may give Illinois a little more flexibility. Meanwhile, New York City has a large commercial real-estate tax base compared to Kansas. But will the values of those properties decline if more people work from home?

"You need to do your credit work on each one, look at valuations in the market, and determine if you are getting paid enough in additional yield to own these credits in your portfolio," Fitterer says.

Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, says that any aid could also penalize states for having little in their rainy-day funds as a way "to get to a number that could

potentially satisfy both sides.” He expects to see \$500 billion or so for state and local governments, and greater flexibility for states to use Cares Act money.

The hit for bondholders will come in the form of downgrades. Right now, all states are investment grade. Illinois has the lowest rating: Recently, Fitch downgraded it to BBB-, the lowest rating that is still considered investment grade. Thus, it has the widest yield spread, with its 10-year general obligation bond fetching 266 basis points above the benchmark Thomson Reuters Municipal Market Data (MMD) AAA index, up from 155 at the start of the year, but down from 425 in May when it began narrowing. The benchmark yield is 0.73%. That gives Illinois a yield of 3.4%, compared to 4.8% for high-yield corporate bonds.

The spread for a similar New Jersey issue is 86, up from 60 in May. For New York, it’s 10 basis points, up from minus five in January. Louisiana is at 38, up from 28 in January. And Kansas has spent the year at 18, while Oklahoma started the year at 20 and is now at 19, according to Hilltop Securities.

These risk levels would have been high even before Covid-19, Kozlik says. Still, states have many levers to pull. For example, they can cut aid to municipalities, which can declare bankruptcy with a state’s permission. In the past, observes Adam Stern of Breckinridge Capital Advisors, which specializes in fixed income, the governor of Illinois openly advocated for bankruptcy of Chicago public schools, and the governor of New Jersey threatened to put Atlantic City in Chapter 9 proceedings. Says Randall Gerardes, head of municipal strategy at Wells Fargo Securities: “States will take care of their house first, and are in a better position than local governments,” at least from an investor point of view.

If you’re worried about the outlook for bonds, don’t forget that the Fed has provided support for the muni market. Illinois was able to issue short-term bonds directly to the Fed this year.

Even if more aid doesn’t materialize, Clifton of Strategas tells investors to watch the election. “If the Democrats sweep, I’d expect there to be more aid.”

Ultimately, much depends on the availability of a Covid vaccine: “If you get to 2022 with no vaccine, the willingness to keep the game going for a large number of issuers will start to deteriorate,” says Stern of Breckinridge. Still, most people are expecting a vaccine next year. That should keep the markets liquid and reduce financial system risks, even if the economy does take a second dip.

## **Barron’s**

By Leslie P. Norton

July 27, 2020 5:00 am ET

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### **[Putting the Muni in the Fed’s Munificence?](#)**

Pressure is intensifying for legislative policymakers to frame Stimulus 4.0 in a way that provides relief to state and local governments, but that pressure is more and more working its way toward the central bank as well.

The Municipal Liquidity Facility unveiled by the Fed four months ago helped the muni market on the margins. But only one borrower has directly tapped the facility, and the Fed has only extended out

\$1.2 billion of credit from a \$500 billion facility. The rates are said to be too high. That seems — how to put it — counter-intuitive, but basically, most municipalities do not struggle for a lack of access to debt capital in the capital markets. The reason why the Fed cannot yet extend its municipal lending operation is that it is currently limited to six-month maturities for direct purchases. The legislation in the House-passed Stimulus 4.0 bill would extend this to ten years. It is not presently legal for the central bank to go longer than “short term paper.” The House bill provides that the Fed can lend (even up to ten years) at the Fed’s discount rate level (a less than demanding 0.25 percent).

I am quite sure the Fed does not want to be making 0.25 percent money available to governments who have displayed the kind of spending discipline we have seen in California, Illinois, and New York.

But as long as Congress gives the Fed the flexibility to buy muni bonds at maturities greater than six months (and I am increasingly convinced it will), the way rates play into it will get resolved (ask the corporate bond market). Fed interventions to lower the spread in muni borrowing (relative to Treasuries) would provide a huge boost to current muni investment returns (as yields would come down and prices up), and it would lower forward borrowing costs for municipal issuers. But it also might be the final chapter in getting an attractive yield going forward in this market (for investors). I am quite sure the capital needs of the states and cities is more on the mind of legislators than the distorted effects on savers and investors.

NATIONAL REVIEW

By DAVID L. BAHNSEN

July 15, 2020 3:28 PM

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### **[U.S. Muni Market Remains Under Watchful Eye of Fed, Official Says.](#)**

CHICAGO, July 13 (Reuters) – The U.S. Federal Reserve stands ready to consider further intervention in the municipal bond market, which is not “necessarily out of the woods” after recovering from unprecedented volatility arising from the coronavirus pandemic, a Fed official said on Monday.

A selling frenzy by virus-rattled investors in the \$3.8 trillion market where states, cities, schools and other issuers sell debt sent yields skyrocketing in March. Moves by the Fed to aid short-term debt markets, as well as a loan program for states and eligible local governments facing a cash crunch, helped restore calm. “My job and our team’s job is to monitor the market and if additional intervention is required, the Fed’s prepared to consider it,” Kent Hiteshew, a former muni banker and U.S. Treasury official who joined the Fed’s financial stability division in March, said at the Brookings Institution’s municipal finance conference.

Hiteshew said the municipal liquidity facility (MLF), which the Fed authorized in April, was designed as a backstop for the market, allowing governments to access short-term, cash-flow loans from the Fed.

As of June 30, however, the MLF had only loaned \$1.2 billion to Illinois, the state with the lowest credit ratings at a notch above junk, Fed data shows.

Cash-strapped New Jersey, meanwhile, is eyeing the MLF as an option for a significant portion of a

\$9.9 billion borrowing agreed to last week by its governor and legislative leaders.

High borrowing costs in the \$500 billion program have deterred participation.

Hiteshew said that fiscal issues for states and local governments caused by sinking tax revenue “have only just begun,” and that some were balancing their budgets on the hope of future federal monetary aid.

He added the Fed’s job is to make sure markets function and that it cannot solve the governments’ “huge lost revenue problem.”

Reporting by Karen Pierog in Chicago Editing by Matthew Lewis

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## **2020 Muni Market Midyear Update.**

### **Summary**

- States and towns are reluctant to make any issuance until they have an understanding of just how bad their revenue losses are going to be.
- Treasury yields are near all-time lows and some foreign bond interest rates are negative, making municipal bonds an attractive alternative.
- A lot of people in the transportation space, the entertainment sector and the educational sector are going to find their jobs are generally not needed anymore because we’re going to do more remote work.

[Continue reading.](#)

### **Seeking Alpha**

by Robert W. Baird

Jul. 15, 2020

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## **Lincoln Center to Pay Wall Street Banks \$73 Million to End Swaps.**

- **Derivative deal left arts center paying above-market rates**
- **Center dismissed or furloughed 200 staff because of pandemic**

Lincoln Center for the Performing Arts, which dismissed or furloughed 200 employees after canceling performances because of the pandemic, is borrowing \$73 million to end derivative trades with Morgan Stanley and Bank of New York Mellon Corp.

The home of the New York Philharmonic, the Metropolitan Opera and the New York City Ballet entered into interest-rate swaps in 2006 and 2008 to lock in fixed rates on \$150 million of floating rate bonds. However, the value of the contracts to Lincoln Center plummeted as interest-rates fell to historic lows and it had to draw \$30 million on a line of credit to post collateral.

In mid-August, Lincoln Center plans to issue about \$140 million fixed-rate tax-exempt debt at a



premium to refinance the bonds and about \$73 million taxable bonds to pay off the swaps, according to Leah Johnson, the center's chief communications and marketing officer. Lincoln Center is taking advantage of low interest rates to cut exposure to variable-rate debt, free up its \$100 million credit line, and potentially reduce interest costs compared to alternatives, she said.

"At the time, given the historical interest rate trend line, it seemed like the appropriate course," to execute the swaps, said Johnson. "We're not going to second guess."

Lincoln Center was among scores of U.S. states, cities and non-profits that sought to save money by borrowing with floating-rate bonds paired with interest-rate swaps instead of selling traditional fixed-rate debt. Under the swaps, municipalities received a variable-rate payment from banks, meant to cover those on the bonds, and paid a fixed rate in return.

The deals unraveled during the financial crisis when the housing bust hammered insurers that guaranteed the bonds, causing the interest rates to soar. While many governments paid billions to back out of the deals after the crisis, others, including Lincoln Center, opted to replace insurance on the bonds with bank letters of credit that would guarantee the bonds from default and help lower rates.

Under the swaps, Lincoln Center paid Morgan Stanley a fixed rate of 3.7% on \$95 million of variable-rate debt and paid Bank of New York 4% on \$50 million of bonds. The banks paid Lincoln Center 69% of 3-month London Interbank Offered Rate, Johnson said.

As long-term rates declined in the last decade — because of Federal Reserve bond purchases, sluggish economic growth and more recently, a coronavirus induced flight to U.S. Treasuries — the value of the swaps to Lincoln Center plummeted from a gain of \$2.7 million in 2006, to a \$73 million loss. Since 2006, yields on top rated 30-year tax exempt bonds have declined to 1.5% from 4.4%.

Unwinding the swaps will eliminate further losses if interest rates continue to fall and avert the need to transition to a new benchmark when Libor is phased out at the end of 2021, Johnson said.

The pandemic has put even more pressure on Lincoln Center's finances. It has dismissed 55 staffers permanently and furloughed about 150, Johnson said. Lincoln Center is projecting a \$10 million operating loss and \$3 million in restructuring expenses, according to an S&P Global Ratings report this week.

## **Bloomberg Markets**

By Martin Z Braun

July 23, 2020, 11:34 AM PDT

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### **[Do Muni ETFs Improve Market Quality?](#)**

#### **EXECUTIVE SUMMARY**

- **"Do Municipal Bond ETFs Improve Market Quality?" was the title of a research paper presented at the 9th Annual Brookings Municipal Finance Conference by Justin Marlowe of The University of Chicago, at which we discussed our reaction to the assumptions and conclusions of the report.**

- **We concur with Professor Marlowe's conclusion that muni ETFs do improve market quality and suggest some practical takeaways for municipal bond investors.**

[Continue reading.](#)

## **ETF Trends**

By Patrick Luby, Senior Municipal Strategist, Credit Sights

JULY 20, 2020

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### **[Century Housing's \\$100M Bond Offering Sees Rapid Success.](#)**

**Last month, the firm launched a bond offering to fund affordable housing, and has quickly seen strong investor interest.**

Last month, Century Housing announced a \$100 million bond offering to fund affordable housing in California, and the offering has already been an instant success. The offering is the first of its kind with a municipal bond and to be rated by Fitch and S&P. The offering was 12 times oversubscribed with more than \$1 billion in investor interest.

"The response exceeded our expectations," Alan Hoffman, SVP and CFO of Century Housing, tells GlobeSt.com. "In addition to middle market investors and CRA investors, we saw strong interest from social and green/environmental investors. Affordable housing, and notably projects that will ultimately be financed with low income housing tax credits, which is the majority of the projects we finance, incorporate significant energy and water saving features as well as pollution reduction aspects. The social impact of this housing is more important than ever, targeting the economic burden faced by so many that is a major contributor to the social inequalities plaguing our society." Century offered the opportunity because its business was growing, and it had the ability to finance more affordable units. "Century's book of financing for affordable housing throughout California is increasing," said Hoffman. "Century is seeing opportunities to finance experienced quality developers across the State. In addition to funding an increase in our lending portfolio, we will use a portion of the 2020 bonds to re-finance 2019 bonds that are maturing later this year."

The offering will provide up to \$100 million in ESG municipal CUSIP bonds, which will be federally taxable and state tax-exempt. The strong response shows increasing interest in affordable housing investment. Due to the market dislocation, that demand is set to increase. "We do believe we are seeing a connection between the economic and social impacts of the pandemic, and interest in our paper," says Hoffman. "Century believes that safe, quality affordable housing is at the foundation of the economic empowerment of low and moderate income communities. It is these communities that are most impacted by the economic disruption caused by the pandemic. Affordable housing is all that Century does, consequently an investment in Century is almost a pure play on affordable housing in our geography."

The offering has the potential to finance and refinancing nearly 2,000 affordable homes. "In the fourth quarter of this year Century is planning a retail note program to fund further growth in our affordable housing financing activities," says Hoffman. "Further bond offerings may be possible in 2021 and annually thereafter to finance existing bond maturities as well as further growth in our operations."

## **When More Banks Compete for Municipal Debt, States and Towns Win.**

- **Number of banks bidding on new deals rose in last decade: MSRB**
- **Soliciting more bids lowers interest cost for issuers**

Municipal-bond auctions are getting more competitive, shrinking underwriters' profits and lowering borrowing costs for taxpayers.

The average number of bids state and local governments receive when putting bonds up for auction has increased over the past decade to 5.7 per issuance in the first half of 2019, up from 4.4 in 2009, according to research published Monday by the Municipal Securities Rulemaking Board.

And issuers who get more bids on their bonds have lower borrowing costs. Winning banks' profit margins for competitive offerings decline to less than 0.02% with 18 or more bids compared with 0.19% with one bid, on a true interest cost basis, according to a paper by Simon Wu, the MSRB's chief economist. On offerings with net interest cost bids, spreads declined to around 0.02% with 10 or more bids from 0.36% with one bid.

"All things being equal, soliciting more competitive bids does indeed improve an issuer's selling price and reduce the yield cost for the issuer," wrote Wu, who will present the findings at the Brookings Institution's Municipal Finance Conference.

Last year, about 24% of long-term debt by par value issued by state and local governments were sold through competitive bids, according to data compiled by Bloomberg. Issuers post public notices asking banks to make proposals and award the debt to the bidder offering the lowest interest cost. The other 76% are done through negotiated underwriting, where municipalities select a bank to price and sell the bonds, similar to an initial public offering in the stock market.

On short-term note sales, municipalities favor the competitive method, auctioning 84% of all notes.

Some academics have found competitive bond-issues result in lower borrowing costs than negotiated deals. While a number of studies compare competitive and negotiated municipal offerings, there's scant research on competitive deals exclusively, said Wu in an interview.

The average number of competitive bids received per issuance increased regardless of the size of the deal, a state's population or per capita income, according to Wu's paper.

And while the average number of bids received has gone up over the last decade, the competitiveness of the bids has also improved. The difference between winning bids and the lowest bid fell to 0.183% in 2019 from 0.383% in 2009. The difference between the winning and cover bid fell to 0.025% from 0.071%.

The increase in bids and decline in spreads between winning and other bids may be a result of improved technology and information transparency in the market, as well as factors such as interest rates and volatility, the MSRB paper said.

"As a result, underwriters may be increasingly submitting more informed bids so that competitive

bids from different underwriters have become more clustered together.”

## **Bloomberg Markets**

By Martin Z Braun

July 13, 2020, 7:13 AM PDT

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### **[The Fed Makes Groundbreaking Purchase of Municipal Bonds, But Is it Enough?](#)**

In March, as part of its response to COVID-19, the Federal Reserve announced it would for the first time in its history enter the municipal bond market — a \$4 trillion market financing everything from transportation infrastructure to affordable housing to schools to economic development. As of June 15, just one state had sold any bonds to the Fed.

That state was Illinois, which sold a \$1.2 billion “tax-anticipation note” to the Municipal Lending Facility, managed by the Federal Reserve Bank of New York. The state owes 3.82 percent in interest to the facility, or about \$45.8 million, with principal and interest due for repayment in one year.

Some economists have been saying the Federal Reserve should be making many more municipal bond market purchases as part of its normal functioning, not just as part of a crisis response. In addition to helping the Fed perform its mandated function of stabilizing the financial system, they say it would have huge benefits for cities, among other things making it easier to finance public transit, public housing, climate resilience projects and invest in historically disinvested communities.

[Continue reading.](#)

NEXT CITY

OSCAR PERRY ABELLO JULY 7, 2020

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### **[Main Street Goes to Bay Street: Municipal Governments Exercise New Investment Powers](#)**

TORONTO , July 6, 2020 /CNW/ – A group of six Ontario municipalities are among the first to head to Bay Street to exercise new investment powers.

The City of Kenora , District Municipality of Muskoka and Towns of Bracebridge , Huntsville , Innisfil , and Whitby have come together to jointly invest under the Prudent Investor Standard with ONE Investment. By-laws approving investment under the new standard have just come into effect, helping municipalities to diversify their investments and improve returns.

Under Prudent Investor, municipal governments, just like pension plans and trusts, may invest in any product that is prudent for their situation. Previously, municipalities could only invest in a list approved by the Province. Securities were limited to Canadian firms, which make up only 3% of worldwide securities.

ONE Investment is a not-for-profit investment service for municipalities and the public sector. It has been serving municipalities for more than 25 years and currently manages about \$2 billion in municipal investments.

“Every dollar a municipality earns through investing is one less dollar it has to collect from taxpayers. That’s more important now than ever,” said Ken Nix , Chair of ONE Investment, and Whitby’s Commissioner of Corporate Services and Treasurer.

Under provincial rules for Prudent Investor, an independent Investment Board must manage investments on behalf of the municipality. ONE has created a Joint Investment Board with the six founding municipalities. It is the first of its kind in Ontario .

“Municipalities don’t have to navigate markets alone,” said Judy Dezell , ONE Investment Co-President/CEO. “The investment advisory team helps with investment planning and policies, while the Joint Investment Board provides hands-on expert management.”

The ONE Joint Investment Board is made up of two municipal representatives and six professionals with a mix of experience in the municipal sector and the investment industry, including global markets and pensions.

“Having professional advice and flexibility are particularly important right now as markets fluctuate in response to COVID-19’s economic impact,” added Donna Herridge, ONE Investment Co-President/CEO and Executive Director of the Municipal Finance Officers’ Association (MFOA). “Municipalities are investing for the long-term. With professional support, they can manage current market conditions to meet future goals.”

“As a joint investment board, we provide every participating municipality with its own tailor-made investment plan,” said Bill Hughes , Chair of the ONE Joint Investment Board. “It’s our job to make wise and prudent investment decisions to meet each municipality’s goals.”

## **About ONE**

ONE Investment combines municipal investments to achieve economies of scale for lower fees and better returns. It is a not-for-profit formed by the municipal sector, including the Local Authority Services (LAS) and CHUMS. LAS is the business services arm of the Association of Municipalities of Ontario (AMO). CHUMS is a subsidiary of MFOA.

ONE has a proven track record of providing competitive returns through products that comply with provincial regulations. The Prudent Investor Standard is now another choice for municipalities to achieve their goals. ONE Investment continues to operate funds under the legal list of provincially approved investments as well.

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## **[CUSIP: Municipal CUSIP Request Volume Surges for Third Straight Month](#)**

[Read Press Release.](#)

JULY 9, 2020

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## **Local Finances Are Troubled, but Fund Investors May Still Profit.**

### **High-grade municipal bond portfolios have been among the best places to find income.**

Record unemployment and the coronavirus recession are wreaking havoc with the cash-flow prospects for many municipal bond issuers.

State and local governments that rely on income tax and sales tax face sharply lower revenues. And empty roads, airports, stadiums and convention centers mean there is less (or no) revenue to help pay back the bonds that financed those projects.

Yet many municipal bond mutual funds and exchange-traded funds have managed to post positive returns for the first half of the year. After falling 11 percent in the worst of the coronavirus sell-off in March, the market rallied when the Federal Reserve stepped in with support. At this point, the average high-grade intermediate municipal bond fund is back above water for 2020.

The Vanguard Intermediate-Term Tax-Exempt mutual fund gained 2.2 percent for the first half of the year. American Funds' Tax-Exempt Bond Fund of America rose 1.3 percent this year to date. The iShares National Muni Bond E.T.F. gained 2.3%.

Karl Zeile, a co-manager of the Tax-Exempt Bond Fund of America, is telling clients, "This is not a time to run away from municipals. This is a time to step in."

That's not blind optimism.

While bond investors often focus on having a smooth ride, fund managers tend to become excited in periods like this one, when prices have fallen and bargains may be found.

"It's a very inefficient market with a lot of uncertainty, and that breeds opportunities," said Mathew Kiselak a senior portfolio manager for Vanguard's municipal bond team. The \$3.9 trillion municipal bond market has a quirky structure: There are around 50,000 issuers, yet no single exchange where trades can be quickly executed.

In the heat of the March sell-off, that inefficiency sent prices plummeting as sellers had difficulty finding, and then enticing, potential buyers. When bond prices dropped, yields rose. Mr. Kiselak says even with the recent rally, high-quality municipal bond yields are still relatively high compared with other bonds', which suggests there is still value to be mined.

While every segment of the municipal bond market other than truly essential services (for water, sewage and electricity) has a near-term revenue headache, some bond issuers could face continuing challenges even once the economy emerges from the coronavirus pandemic.

Nursing homes may have a harder time attracting residents. Small private colleges that rely more on residential-student revenue than large public universities face a financial hit if online learning becomes more mainstream. And it's not clear how soon arenas, stadiums and convention centers will reopen, or if the seats will be filled.

But most bonds should be just fine, fund managers say. "The bulk of the market is very healthy," said Peter Hayes, head of municipal bonds at BlackRock.

Of the roughly \$3 trillion in bonds that have been assigned credit ratings, more than 90 percent are

high-grade issues rated AAA, AA, A or BBB. And less than 10 percent of investment-grade municipal bonds are sitting at the lowest rung of BBB. For corporate bonds, more than 50 percent of the high-grade market is rated BBB.

Highly rated municipal bond issuers typically have enough cash set aside to cover at least a year's worth of their obligations to their investors. And for so-called revenue bonds — those whose payment streams rely on revenue from specific projects, like toll roads or stadiums — reserves are often even deeper.

That helps to ensure timely payments in the near future, even if their revenue is scarce and Congress does not step in with help for states and cities, many of which are already projecting budget shortfalls. Longer term, absent federal aid, state and local governments would need to consider raising taxes, reducing services and cutting payrolls to cover bills, including municipal bond payments.

Amid the uncertainty, high-grade municipal bonds offer income investors yields that are relatively high. For example, the average yield for a AAA-rated 10-year municipal bond is 0.9 percent, compared with 0.67 percent for a comparable Treasury note. On top of that, interest on municipal bonds is exempt from federal tax, and bonds issued within your state of residence may also be exempt from state and local income tax.

Just counting the effects of the federal tax exemption, if you're in the 24 percent federal tax bracket, the 1.4 percent current yield on the Vanguard Intermediate-Term Tax-Exempt fund is equivalent to a yield of 1.84 percent in a taxable bond fund (assuming, of course, that neither is held in a tax-sheltered account). For investors in the 35 percent federal tax bracket, the yield is the equivalent to a taxable yield of 2.2 percent. The average current yield for core bond funds (whose income is taxable) is 1.4 percent.

If that yield advantage appeals, it bears repeating that the coming months may be rocky.

Mr. Hayes cautioned that even with a reopening of the economy, municipal revenues will "only be at a percentage of what they were pre-Covid." Even if a vaccine arrives, people may not spend as much, rely on public transportation with the same gusto, or drive or fly as much, or flock to stadiums, arenas and convention centers.

Moreover, some states and cities that issued high volumes of bonds already had severe budget problems before the crisis: Illinois and New Jersey had many bonds rated BBB, the lowest rung of investment grade before the coronavirus. These and other states may find it harder to dig out of this recession.

As downgrades emerge, Mr. Hayes says "headline risk" may shake up the market. When one issuer falters, he said, "investors begin to worry about the overall health of the market, and it becomes a contagion and there is a sell-off."

But remember that after such sell-offs in the past (see: Puerto Rico, Detroit), there was no lasting impact on the broader market. "Those usually end up being good long-term buying opportunities," said Mr. Hayes.

There is already opportunity to find value despite the headlines, many managers say.

Mr. Kiselak at Vanguard says that while nursing homes may face a rough road because of coronavirus-related deaths, another type of institution, known as continuing care retirement communities, have not had such problems, but their bonds have been hammered as if they did.



He said the Vanguard municipal bond team is also finding value in the bonds of single-site health care centers that do not have the same challenges as “massive systems that were in epicenters,” where coronavirus costs rose and revenue fell as nonessential procedures were closed.

That same nuanced credit-by-credit analysis is why the Tax-Exempt Bond Fund of America has more than 10 percent of its assets invested in issues from the State of Illinois and municipalities including Chicago, despite broad financial problems in the state and some of its cities.

Mr. Zeile said most of the fund’s stake was invested in revenue bonds “that are unnecessarily tarred with the same concerns” as bonds from Illinois that depend on tax collections, which are referred to as general obligation bonds.

A revenue bond for an Illinois toll road, or for O’Hare or Midway Airport, pays back investors from money earned when people drive on those roads and pass through those airports. They aren’t dependent on direct government tax collections. Yet the yields for some Illinois and Chicago revenue bonds are higher now simply because of the implied guilt by association with general obligation issues.

In the current market, the embedded diversification of a fund or E.T.F. is especially valuable. “If you get an issuer that decides to go through some type of restructuring, in a fully diversified portfolio, the overall impact will be pretty minimal,” Mr. Hayes said.

Downgrades are more likely than outright bankruptcies. According to Moody’s Investor Services, from 1970 through 2018, the average rolling five-year default rate for rated municipal bonds was 0.09 percent, compared to 6.6 percent for corporate bonds.

The nation’s fiscal problems imply that the value of the tax exemption on municipal bond income isn’t likely to wane.

“With these deficits we’re running up, taxes aren’t going down,” Mr. Hayes said. “Who knows if they might go up — that’s probably an election outcome decision — but they aren’t going down for sure.”

## **The New York Times**

By Carla Fried

July 10, 2020

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### **[Virus Causes Uncertainty for State Lotteries.](#)**

Boston — The coronavirus pandemic has been a rollercoaster for state lotteries across the country, with some getting a boost from the economic downturn and others scrambling to make up for revenue shortfalls.

Since March, Texas, Arkansas and Montana and several other states have seen an increase in sales, in part, driven by housebound residents putting cash down for scratch-off tickets. But lottery officials say other states, like Massachusetts and Oregon, confronted revenue drops due to stay-at-home orders that forced the closure of restaurants, bars and some retailers selling tickets. Some also blamed a lack of an online presence, something only a handful of states currently allow.



“We got used to lottery as a constant companion supporting the system and it was a gut punch to realize we don’t have the time to react,” said Chris Havel, spokesperson for Oregon Parks and Recreation, which laid off 47 people and closed more than two dozen parks due to a \$22 million projected budget shortfall through next year driven in part by a drop in lottery revenues.

State lottery revenues do not make up a huge portion of a state budget. But because the monies are often directed to specific programs like education, environment or veterans programs, they can have an outsized impact when there are upticks or declines in sales.

Massachusetts Treasurer Deborah Goldberg told lawmakers in April that the lottery was hobbled by the closure of claims centers and the lack of an online presence — something that helped neighboring New Hampshire and several other states attract new players. Currently, at least nine states allow online lottery sales, according to the North American Association of State & Provincial Lotteries.

“This pandemic has dramatically exposed the limitations and vulnerabilities of the Lottery’s all-cash, in person business model,” Goldberg said.

The pandemic and the subsequent economic downturn were expected to be a good thing for lottery sales. Past studies have shown a correlation between a rise in unemployment and increase in lottery sales — a trend that prompted an anti-gambling group to unsuccessfully call for states to shut down their lotteries until the coronavirus pandemic ended.

“We have known for some time that people end up playing the lottery more often or with more of their dollars when they get put in dire circumstances, when they have a drop in income,” said Cornell University business professor David Just, who has studied lottery purchases.

“Unemployment is one of the potential big drivers for something like that. We saw that at the beginning of the pandemic,” he said. “Massive rises in unemployment, you would expect, would lead people to this place where they want to take more risks to try and get back what they’ve lost.”

That was the trend in several states, including Arkansas, which saw strong sales in April and May.

Arkansas Scholarship Lottery Director Bishop Woosley attributed the sales spike in his state to low gas prices, a lack of other entertainment options and “people simply being bored and looking for activities that they can do in their own homes.

Similar trends were seen in Montana, which has seen sales increase \$1.4 million from March through May to more than \$16 million. Much of that has been driven by scratch-off tickets, which jumped 83% compared to a year ago, according to state figures.

Minnesota’s stay-at-home order led to lottery sales dropping in March but roared back in April and May. According to the the monthly data, sales in April increased more than \$13 million compared to year ago and more than \$29 million in May. A majority of lottery proceeds go to the general fund and another portion to environmental programs.

Texas also saw lottery sales increase more than \$155 million this fiscal year and more than \$753 million compared to the 2018 fiscal year. A big driver was scratch-off tickets, which increased 10% over the last fiscal year and 22% over sales from 2018 mostly because 20,000 retail locations were deemed essential services, according to Gary Grief, executive director of the Texas Lottery Commission.

But not all state lotteries have benefited from the pandemic.

Delaware's lottery sales are off almost \$40 million through May compared to the last fiscal year, mostly due the closure of casinos with video poker and table games, according to state data. Other factors in several states was a drop in revenue from big-money games like Powerball, which saw lower some jackpots.

Virginia saw sales drop 21%, or just over \$45 million in March and in April by 8%, or more than \$15 million compared to a year ago. They were up nearly 9% in May but are still down 8% for the fiscal year.

In Massachusetts, sales were down by about 13% in March, 30% in April and around 10% in May, leaving the lottery down 5% for the fiscal year. Unlike Texas, which kept many retail outlets open, Massachusetts temporarily closed more than 1,500 due to the pandemic. That left players with fewer places to spend their money.

Lottery profits go into a larger municipal aid program for the state's 351 cities and towns, but it's too early to say the impact on local budgets.

"Declining state tax revenues and Lottery proceeds are a serious budget concern, yet the Massachusetts Municipal Association firmly believes that the state's future depends on protecting local aid and K-12 education funding," Massachusetts Municipal Association's Executive Director Geoff Beckwith said in a statement.

But as states begin to reopen, some of the hardest hit lotteries are bouncing back.

Along with Virginia, Maryland saw its lottery sales recovery after a rocky few weeks. In the midst of the pandemic, lottery officials feared profits would be \$50 million below the state's projections for the fiscal year that ended June 30. Now, officials are expecting profits to be about \$10 million below those projections.

Gordon Medenica, Maryland's lottery and gaming director, recalled weeks in April when sales were down as much as 30% and "we really didn't know where the bottom was at that point. We were just seeing sales absolutely collapse."

"Since then, they have rebounded remarkably well. In the month of May, we actually had our all-time best month for the year in both sales and profits," Medenica said. "Instant tickets have been booming. Our daily numbers games have been booming. Lottery is doing really well."

**By The Associated Press**

July 9, 2020

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## **[Recession Forces Spending Cuts on States, Cities Hit by Coronavirus.](#)**

**Education takes the brunt of reductions; governments have cut 1.5 million jobs since March, with more expected**

State and local governments from Georgia to California are cutting money for schools, universities and other services as the coronavirus-induced recession wreaks havoc on their finances.

Widespread job losses and closed businesses have reduced revenue from sales and income taxes,

forcing officials to make agonizing choices in budgets for the new fiscal year, which started July 1 in much of the country.

Governments have cut 1.5 million jobs since March, mostly in education, and more reductions are likely barring a quick economic recovery. In Washington state, some state workers will take unpaid furloughs. In Idaho, Boise State University cut its baseball and swim teams in an effort to save \$3 million.

[Continue reading.](#)

## **The Wall Street Journal**

By David Harrison

Updated July 8, 2020 2:29 pm ET

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### **University of California Faces Hardship, Eager Bond Buyers.**

- **Even with state aid cut by 12%, system considered ‘marquee’**
- **University sold \$2.3 billion in municipal debt Thursday**

The University of California knows it faces significant repercussions from the coronavirus pandemic — though it can’t say how extensive. Yet it didn’t have any trouble borrowing money from Wall Street.

The system sold \$2.3 billion in revenue bonds Thursday, its first sale since California, dealing with its own shortfalls triggered by the crisis, slashed the university’s funding by 12% in the fiscal year that started in July. The cuts could be reversed if additional federal dollars come through, a scenario that remains uncertain.

The offering of bonds with a final maturity of 2050 shows the dichotomy that’s emerging in the \$3.9 trillion municipal market that finances states, cities, schools and other local institutions. While the virus has led to plummeting tax revenue and skyrocketing costs, some issuers are better equipped to manage the turbulence. And when it comes to colleges and universities, investors are weighing which are more likely to succeed with hybrid online and on-campus plans and other steps to educate students safely while balancing the fiscal hit.

“We’re confident that they can manage the stress,” said Bernhard Fischer, senior analyst at Principal Global Fixed Income, which manages \$9.9 billion in municipal securities. Calling the 10-campus system a “marquee” school, Fischer said “the brand names, the larger state institutions in particular, should be able to weather this downturn better or best.”

Of the \$2.3 billion in bonds, \$1.5 billion are taxable. The proceeds will go to retiring existing securities and for working capital. The sale is part of a glut of offerings from higher education facilities, which have already sold more in bonds this year than in 2019, even as they deal with higher costs from the pandemic and reduced revenue from student housing.

“We expect supply in this sector to remain robust as institutions are in dire need of funding,” Barclays Plc analysts said in a report Wednesday.

Yields on the tax-exempt portion included 0.26%, or 15 basis points below benchmark, for bonds due

in five years, and 2%, or 37 basis points above benchmark, for bonds maturing in 2050 with a 4% coupon.

The largest U.S. public university system in revenue and enrollment, the University of California also operates five medical schools and three national laboratories. In fiscal 2019, it educated 279,145 full-time equivalent undergraduate and graduate students. Its “excellent strategic position as a globally recognized comprehensive academic, medical and research institution with substantial scale and wealth” merits a credit rating of Aa2 with a positive outlook, Moody’s Investors Service said.

It still faces considerable challenges from the pandemic, which led to the cancellation of all spring and summer physical sessions. The university expects all campuses to offer most classes remotely in the fall and some to reduce housing.

“There has been and will continue to be material financial impacts to the university due to the Covid-19 impacts due to a variety of factors including, but not limited to, lower housing occupancy and utilization of auxiliary services, facility cleaning costs, and transitioning to remote instruction,” the University of California regents said in documents circulated to investors ahead of the sale.

The system, which this week named its first Black president, has frozen the salaries of some staffers, while the chancellors and the president agreed to cut their pay by 10%.

The state’s lawmakers, however, have sought to help. If California receives \$14 billion in federal aid by October, the university would see the cuts reversed so that its state allocation is \$3.94 billion, about the same as last year.

The university gets so many applications from students nationwide and internationally that California’s leaders have urged it to expand the ability of residents to attend. The system was planning to add 15,000 student beds between fall 2021 and fall 2025 to help accommodate the need, according to a 2019 annual report.

“They can make it through difficult times because they have such strong finances and a strong demand” from students, said Dan Solender, head of municipal debt at Lord, Abbett & Co.

## **Bloomberg Markets**

By Romy Varghese

July 9, 2020, 9:23 AM PDT Updated on July 9, 2020, 2:39 PM PDT

— *With assistance by Emmy Lucas*

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## **[Moody's Publishes Combined Methodology for Rating Short-Term Debt of US States, Municipalities and Nonprofits.](#)**

New York, July 10, 2020 — Moody’s Investors Service has published its methodology for rating short-term debt of US states, municipalities and nonprofits. The update combines and replaces the “US Bond Anticipation Notes and Related Instruments Methodology” published on October 7, 2019, the “Short-Term Cash Flow Notes” methodology published on April 4, 2013, and the “Municipal Bonds and Commercial Paper Supported by a Borrower’s Self-Liquidity Methodology” published on October 7, 2019.

Moody's has retained the approach for short-term ratings based on its analysis of the borrower's own liquid resources (self-liquidity), but changed its approaches for rating bond anticipation notes (BANs) and short-term cash flow notes. The key revisions include the elimination of the scorecards for BANs, cash flow notes, and BANs financed by the US Department of Agriculture (USDA). For BANs and short-term cash flow notes, the issuer's long-term credit quality is a primary factor, and for USDA BANs, the long-term credit quality of the US Government is a primary factor. Short-term ratings for these instruments incorporate additional considerations. Moody's has also made editorial changes to enhance readability.

Moody's expects 2 ratings out of a universe of 366 to change as a result of the publication of the updated methodology.

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### **[Fitch Coronavirus Stress Test: U.S. Small Network Toll Roads \(Issuer Flexibility Offsets Traffic Declines, Rating Pressure in Stress Scenario\)](#)**

[Read the Fitch Special Report.](#)

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### **[Fitch: Strong Liquidity Across The Board For U.S. Toll Roads Despite Coronavirus](#)**

#### **Related Fitch Ratings Content:**

- [Coronavirus Stress Test: U.S. Small Network Toll Roads \(Issuer Flexibility Offsets Traffic Declines, Rating Pressure in Stress Scenario\)](#)
- [Coronavirus Stress Tests: U.S. Toll Roads — Managed Lanes \(Structural Protections Offset Steep Traffic Losses; Rating Pressure in Severe Downside Case\)](#)
- [Coronavirus Stress Test: U.S. Large Network Toll Roads \(Resilient Assets with Rating Pressure in Severe Stress Scenario\)](#)

**Fitch Ratings-San Francisco-06 July 2020:** Liquidity for U.S. toll roads will remain strong with few roadblocks for the remainder of the year despite the coronavirus pandemic's severe effects on road traffic, according to stress tests conducted by Fitch Ratings of its entire portfolio of rated U.S. toll roads. The results are detailed in a series of reports published today.

The Rating Outlook on a substantial portion of Fitch's rated toll roads were revised to Negative from Stable shortly after the onset of the pandemic due to the gravity of coronavirus-related losses and the potential for lingering impacts on financial metrics. Fitch's rating case scenario accounts for sharp declines in traffic for 2020 with a two-year recovery to 2019 levels. Like other transportation segments, Fitch also modeled more severe stress scenarios should the fallout of the pandemic prove more severe or longer than expected. "The possibility of a long term impact to the broader economy will inevitably have a trickle-down effect for toll roads as well," said Scott Monroe, Senior Director.

Other questions to consider will be how many people will choose to work from home on a more regular basis, a realistic scenario Monroe says will keep consumer traffic levels reduced. Conversely, "Flying restrictions could actually benefit leisure roads should commuters choose to drive to vacation destinations instead of taking to the air," said Monroe.

This has presented toll roads that have seen their liquidity take a hit with an opportunity to take action to avoid a rating downgrade. "Raising toll rates have helped some toll roads return to a more stable financial outlook," said Anne Tricerri, Director. "Other preventative measures include reductions in O&M and pushing out capital plan projects that have yet to break ground."

Issuer flexibility is also helping to offset traffic declines for both large and small network roads. That said, the roadways to keep a close eye on in the coming months are those that have already seen tangible adverse effects to their credit profile, such as Virginia's Dulles Greenway and Elizabeth River Crossings Opco, and Central Florida Expressway. Managed lanes are also benefiting from structural protections that are helping to offset steep traffic losses, although notable outliers include Blueridge Transportation Group and Colorado High Performance Transportation Enterprise, which is facing a construction delay.

The following reports are all available at [www.fitchratings.com](http://www.fitchratings.com).

"Coronavirus Stress Test: U.S. Large Network Toll Roads"

"Coronavirus Stress Test: U.S. Small Network Toll Roads"

"Coronavirus Stress Tests: U.S. Toll Roads - Managed Lanes"

Contact:

Scott Monroe, CFA  
Senior Director  
+1 415 732-5618  
Fitch Ratings, Inc.,  
One Post Street, San Francisco, CA 94104

Anne Tricerri  
Director  
+1 646 582-4676

William Schmid  
Associate Director  
+1 512 813-5704

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:  
[sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **[S&P: COVID-19 Activity In U.S. Public Finance as of 7/6/20](#)**

Here are links to coronavirus-related activity in U.S. public finance. This file will be updated regularly.

[Download](#)

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## **S&P: COVID-19 And The Resulting Recession Are Having A Limited Impact On U.S. Municipal Utility Credit Quality So Far**

### **Key Takeaways**

- Although there is evidence of residential customers and businesses having difficulty in meeting financial obligations, we have yet to see these challenges flow through to electric, water, wastewater, and stormwater utility cash flows.
- The economic stress could constrain ratemaking flexibility, particularly if the recession extends and deepens.
- In the face of these challenges, S&P Global Ratings will monitor whether utilities possess sufficient resources and tools to mitigate cash flow exposure.

[Continue reading.](#)

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### **S&P 'AAA'-Rated U.S. Municipalities: Current List**

[View the Current List.](#)

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### **S&P 'AAA' Rated U.S. School Districts: Current List**

[View the Current List.](#)

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### **S&P 'AAA' Rated U.S. Counties: Current List**

[View the Current List.](#)

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### **SIFMA Statement on American Infrastructure Bonds Act.**

Washington, D.C., July 8, 2020 – SIFMA today issued the following statement from SIFMA president and CEO Kenneth E. Bentsen, Jr. on the American Infrastructure Bonds Act:

“SIFMA commends Senators Roger Wicker (R-MS) and Senator Michael Bennet (D-CO) on their commitment to infrastructure investment, seen today with the introduction of the American Infrastructure Bonds Act. This bill authorizes a direct-pay subsidy for American Infrastructure Bonds, which allows state and local governments to attract taxable bond investors, such as pension funds and foreign investors, to invest in infrastructure projects. Increasing the demand for municipal securities is particularly helpful now, as state and local governments are experiencing much higher costs due to the COVID-19 pandemic.”

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## **Infrastructure Bond Legislation Introduced in Senate with Support of BDA.**

Today, Senators Roger Wicker (R-MS) and Michael Bennet (D-CO) formally introduced legislation that creates a new Build America Bonds program exempt from sequestration titled, the [American Infrastructure Bonds Act](#). The bill, which is supported by the BDA and multiple state and local government groups, would create a new class of “direct-pay” taxable municipal bonds to help struggling governments finance critical public projects in the wake of the Coronavirus pandemic. This bill follows the recent introduction of the [LOCAL Infrastructure Act](#) that would fully reinstate advance refundings.

**The press release can be viewed [here](#)**

**\*\*BDA Advocacy on these provisions can be viewed [here](#)**

The new class of bonds could be used to support a wide range of infrastructure projects, including roads, bridges, water systems, and broadband internet. The bonds would be modeled as a “direct-pay” taxable bond, with the U.S. Treasury paying a percentage of the bond’s interest to the issuing entity to reduce costs for state and local governments. These payments would encourage economic recovery from the Coronavirus pandemic by subsidizing AIBs issued through 2025 at a higher percentage of the bond’s interest. The payments would revert to a revenue neutral percentage for projects after 2025, reducing long-term costs for the federal government and providing a permanent financing option for localities.

The BDA will continue to provide updates on this legislation, as well the corresponding bill to reinstate advance refundings in the Senate.

### **Bond Dealers of America**

July 8, 2020

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## **Wicker, Bennet Introduce American Infrastructure Bonds Act.**

U.S. Senators Roger Wicker, R-Miss., and Michael Bennet, D-Colo., today announced the introduction of the “[American Infrastructure Bonds Act of 2020](#),” legislation that would create a new class of “direct-pay” taxable municipal bonds to help struggling governments finance critical public projects in the wake of the coronavirus pandemic. The senators’ proposed “American Infrastructure Bonds (AIBs)” would improve upon the model of “Build America Bonds (BABs)” that were issued after the 2008 financial crisis to attract more investment in public infrastructure.

“Empowering our local leaders to start important infrastructure projects is a proven, cost-effective way to help our communities emerge from severe financial hardship with assets that provide value to the area for years to come,” Wicker said. “The American Infrastructure Bonds Act of 2020 would improve upon previous efforts to expand investment in the state and local bond market by increasing flexibility for communities and adding assurances for the bondholder.”

“This bipartisan proposal will support locally-driven efforts to revitalize our infrastructure, create jobs, and improve quality of life in communities across Colorado,” said Bennet. “American Infrastructure Bonds are a proven, successful model for drawing much-needed investments that are



critically important for creating stronger and more resilient communities – from improving roads, bridges, public transit, and tunnels to renovating hospitals and school buildings.”

The senators’ legislation would allow state and local governments to issue taxable bonds for any public expenditure that would be eligible to be financed by tax-exempt bonds. These bonds could be used to support a wide range of infrastructure projects, including roads, bridges, water systems, and broadband internet. The bonds would be modeled as a “direct-pay” taxable bond, with the U.S. Treasury paying a percentage of the bond’s interest to the issuing entity to reduce costs for state and local governments. These payments would encourage economic recovery from the coronavirus pandemic by subsidizing AIBs issued through 2025 at a higher percentage of the bond’s interest. The payments would revert to a revenue neutral percentage for projects after 2025, reducing long-term costs for the federal government and providing a permanent financing option for localities.

In plain terms, the senators’ legislation is expected to boost investment in infrastructure and other important public projects at a critical time by providing affordable access to the large taxable bond market. The higher interest rates offered by the taxable AIBs increase the expected value of the bonds to some types of investors, such as pension funds and foreign investors, who do not receive the tax advantage from traditional tax-exempt bonds. Expanding the market for municipal bonds increases private investment in the public sector and equips local governments with more options for financing projects. Importantly, AIBs would incentivize private capital to invest in rural areas, where financing can often be harder to secure.

The senators’ legislation provides important flexibilities to state and local governments. With AIBs, local communities can develop their infrastructure strategically without the burden of a centralized bureaucracy or the constraint of a state cap on allocation. As an additional benefit, the payments from the U.S. Treasury to issuers would be exempt from sequestration, which would increase the confidence of the bondholder and bond issuer alike.

The American Infrastructure Bonds Act of 2020 is supported by: The National League of Cities, the National Association of Counties, the Government Finance Officers Association, the American Public Gas Association, the National Association of Bond Lawyers, the Bond Dealers of America, the American Society of Civil Engineers, the American Council on Education, the Securities Industry and Financial Markets Association, and the American Planning Association.

For a one-page explanation of the legislation click [here](#).

**By Yall Politics Staff**

July 8, 2020

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## **[Public Pension Reckoning Delayed With Stimulus Pumping Up Stocks.](#)**

- **Pensions may return 2% for fiscal year, BNY Mellon estimates**
- **Retirement systems were on pace for 21% loss in March**

U.S. public pensions may have finished the fiscal year with small gains, a dramatic turnaround after losing about \$1 trillion during the first quarter when the coronavirus pandemic triggered a stock market plunge.

In March, U.S. public pensions were on pace for an average investment loss of about 21% for the

year ending June 30, according to Moody's Investors Service. Thanks to massive monetary and fiscal stimulus, state and local retirement funds, which invest about half of their assets in U.S. and foreign stocks, may have returned 1.9%, according to an analysis by Bank of New York Mellon Corp. Moody's estimates one-year returns at about 1%.

The \$2.2 trillion stimulus package from Congress and a commitment by the Federal Reserve to lend as much as \$2.3 trillion to support the economy, coupled with optimism about work toward developing a coronavirus vaccine and a gradual reopening of the economy have pushed U.S. stocks up 20%, their best quarter in more than 20 years.

The gains eased the risk that states and cities will be hit with a steep increase in pension contributions just as they're contending with the coronavirus recession that's promising to cut hundreds of billions of dollars from their tax revenue.

"It was definitely a roller-coaster," said Stephen Kolano, chief investment officer at BNY Mellon Investor Solutions. The volatility and plunging tax revenue resulting from the pandemic "make it an extremely uncertain time for how finances look like going forward for pensions."

Government retirement systems, which count on annual gains to cover all the benefits promised to retirees, have increased their allocations to riskier investments in stocks and private equity after a decades-long decline in interest rates and slow global economic growth made it harder for them to meet long-term targets. This has exposed them to greater volatility.

Public pensions assume an average annual investment return of 7.2% and taxpayers make up the difference when returns fall short. Governments don't make up the losses at once; instead they phase in additional contributions to cushion budget shocks.

Had New York City's five pensions lost 20%, for example, taxpayer contributions would have increased more than \$400 million in the fiscal year beginning July 1, 2021, according to an estimate by the city's Independent Budget Office, equivalent to the annual budget for libraries.

With investment gains of 2%, the city would need to make an additional \$76 million payment.

Strong second-quarter returns pushed the public pensions' funding ratios, or the amount of assets the retirement funds have to pay liabilities, to 71.3% in May from 66% in March, according to the Milliman 100 Public Pension Funding Index. The ratio was 75% at the end of 2019.

While retirement systems have far less than they need to pay pensioners, even the most poorly funded systems like Chicago and New Jersey won't exhaust their assets in the next five years, according to the Center for Retirement Research at Boston College. If funds run dry, state and local governments would have to pay pensions solely with taxpayer dollars.

Yet pensions are unlikely to be a catalyst for widespread municipal defaults, as is sometimes suggested, even as state and local governments deal with revenue hits from the coronavirus pandemic, according to Barclays Plc strategists led by Mikhail Foux. In recent history, only Vallejo, California's bankruptcy in 2008 was directly related to the city's rising pension obligations, the Barclays analysts said.

"We believe even the worst-funded plans can still cover benefit payments for numerous years," Barclays said.

To come up with its estimate for retirement systems' performance, BNY Mellon applied market index returns to median public pension asset allocations in the firm's database. The median allocation was

44% in U.S. and international stocks, 25% to bonds, 10.9% to private equity, 8.6% to both real estate and hedge funds and 3.3% to Treasury Inflation Protected Securities.

Pensions more heavily weighted to U.S. stocks than international equities likely performed better. The Russell 3000 Index, which represents 98% of the U.S. stock market, returned 4.5% for the 1-year period ending June 30. By contrast, non-U.S. stocks fell 7.1%.

U.S. bonds returned 8.7% for the one-year period ending June 30, according to the Bloomberg Barclays US Aggregate Bond Index.

## **Bloomberg Markets**

By Martin Z Braun

July 6, 2020, 8:46 AM PDT

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### **Public Pension Funds in an Era of Low Rates and COVID-19.**

What is the most prudent strategy for state and local governments confronting low returns on pension investments, aging workforces, and pressure to build portfolios large enough to cover promised future benefits at the same time that these governments face other pressing demands?

Presentations at the 2020 Municipal Finance Conference provide contrasting answers to this question.

Louise Sheiner and Finn Schuele of the Hutchins Center at Brookings with co-author Jamie Lenney of the Bank of England argued at last year's conference that, in aggregate, state and local government pension liabilities can be stabilized as a share of the economy with relatively moderate fiscal adjustments. Accordingly, they concluded there is no imminent crisis for most pension funds.

[Continue reading.](#)

## **The Brookings Institute**

by David Wessel

Monday, July 13, 2020

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### **Biggest Muni-Sales Wave Since Covid Crash Tests Surging Demand.**

- **Maturing debt, cash inflows has investors hunting for bonds**
- **Citi says supply-demand mismatch to keep supporting market**

Even the biggest wave of municipal-bond sales since the end of the coronavirus crash may not be enough to satisfy investors.

State and local governments are scheduled to issue \$17.7 billion in bonds over the next 30 days, the heaviest schedule since April 2, according to data compiled by Bloomberg.

Yet, that's still far less than the \$27 billion of securities that are set to be paid off, providing bondholders with a large amount of cash to reinvest. At the same time, mutual funds have picked up more than \$1 billion of new cash every week since late May, according to Refinitiv Lipper US Fund Flows, further adding to demand.

Citigroup Inc. municipal strategists led by Vikram Rai wrote in a note Monday that the mismatch between supply and demand is likely to keep yields low.

"Technicals remain favorable at least for the next two months and we expect that the municipal market, including taxables, will remain well supported," Rai wrote. He said that muni yields are unlikely to increase "even during strong supply" though they may not be able to keep pace with Treasuries.

Muni issuers expected to sell debt at the fastest pace since April  
Ten-year benchmark municipals are yielding 0.79%, the lowest since at least 2011, and a gauge of 20-year yields is hovering near a more-than six decade low.

With interest rates down so much, government agencies have sold \$205 billion of municipal bonds so far this year, 19% higher than the same period a year ago, according to data compiled by Bloomberg.

But most of that is attributable to a surge in the sale of taxable securities, helping to fuel a relative scarcity in tax-exempt bonds, as rates hold low enough that borrowers are choosing to avoid the federal regulations that come with traditional municipal bonds.

Citigroup estimates that taxable issuance will be the highest since a record \$152 billion was sold in 2010, when the federal government was subsidizing the payments on Build America Bonds to help jump-start the economy.

The taxable bond-sales boom is a positive for the market because it is attracting new investors and helping to diversify the traditionally concentrated buyer base, Citi says.

"In the longer run, a larger buyer base will likely lead to more stable funding costs," Rai wrote.

## **Bloomberg Markets**

By Danielle Moran

July 13, 2020, 10:36 AM PDT

— *With assistance by Mike Alagna*

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### **[Red Storm Rising In The Municipal Market.](#)**

We are all concerned with the economic impact of the Covid-19 pandemic and are fed daily platitudes about the coming recovery. Fears of bankruptcy are being realized among listed companies as the Federal government and the Federal Reserve Bank extend themselves in unprecedented ways. The municipal market is another story.

State governments are making appeals to Congress for bailouts and the Fed is likely to intervene in purchasing state debt issues to provide funding for them to supplement the financial holes created

by the shutdowns of regional economies. But there is a huge segment of the muni market for which little relief will be forthcoming, the small localities and the private purpose or conduit bonds. The fact that these entities and bond issuers have suffered from the pandemic is a forgone conclusion. How many of them have the financial means to avoid default is something to fear.

The vulnerability of municipal bonds is that they are usually the equity component of the capital structure of an undertaking or project. Yet they differ in that they are generally better secured than actual creditors when it comes to default or bankruptcy because they have first claim on the hard assets of the project or enforceable promises from the governmental entity. For this reason default or bankruptcy recoveries tend to be better than in corporate bonds.

A pandemic changes the dynamics of a muni financed bond project in that revenues suddenly fall off a cliff so that merely defaulting on interest payments or principal maturities does not deal with the fact that there is no cash on hand or lines of credit to fund the ongoing expenses of the entity. One current example of such a desperate strait was a nursing home operator who not only couldn't make the bond payment obligations for debt service, but actually tapped the debt payment reserve for operating cash, with bondholder consent.

A second source of likely defaults this year are in bond issues with high coupon rates that are capable of being refinanced but have no early call provisions. We term these "staged defaults." They were quite common in the 1980s and are likely to see a wide comeback this year. Since such issuers arrange the new financing in advance of the default, it results in no loss of interest or principal by existing bondholders. It is only a loss of the opportunity to replace the investment with another bond with a similar yield. Unfortunately, there was never a legal challenge to this blatant breach of contract so it is likely viewed today as a legitimate remedy. Unfortunately, insured bonds are the most vulnerable here since the insurer can not only reduce their exposure to the viability of the enterprise they insured going forward, but also, they can earn a second up-front insurance fee while also capturing the balance of the accruing up-front fee on the refinanced issue. For bond insurers, it doesn't get any better than this.

There is no way to estimate how serious a problem this represents for the municipal bond market. I do expect, however, that bank trustees will be more alert about reporting new payment failures on a timely basis. Hence, we have started a graph based on the dollar amount of payment defaults and included not just defaults in payments to bondholders, but also, failures to make payment obligations to the bond trustee, i.e. distressed issues. We feel this is a better measure of what the market can expect. The chart below shows that defaults as of early July total 59 defaults on \$3.8 billion. This compares to 16 defaults on \$1.7 billion by July of last year and 49 defaults on \$4.1 billion for all of 2019.

## **Forbes**

by Richard Lehmann

Jul 13, 2020

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### **[Muni Bonds Could be Bolstered by Interesting Revenue Stream.](#)**

Amid fears, plenty of which are being realized, that the coronavirus pandemic will punish state revenue intake, previously steady municipals are taking some lumps this year. For example, the VanEck Vectors High-Yield Municipal ETF (CBOE: HYD) is lower by 7.62% year-to-date.

Due to the economic shutdown, which led to a spike in unemployment rates across the country, plenty of states are facing budget woes. Some of those with the worst shortfalls are among the largest issuers of municipal bonds, meaning they're also among the biggest weights in this category's ETFs.

"Potential methods for long-term revenue growth are likely to be discussed by legislators to enable new revenue streams, such as sin taxes," said Jim Colby of VanEck in a recent note. "For states such as New York, which according to The New York State Division of the Budget, projects a \$13.3 billion shortfall in revenue in FY21 and a \$61 billion decline in revenues through FY24, any potential sources of revenue growth deserve discussion. States that have not yet exhausted the maximum potential of their sin tax revenues may have more opportunities for new long-term revenue streams to mitigate, to some degree, the financial impact of the COVID-19 pandemic."

Colby notes a prime avenue for states looking to plug budget gaps is sin taxes. Specifically, casinos and sports betting.

### **Sin Is In for Tax Collectors**

Given the robust growth forecasts associated with sports betting, the activity is a sensible one for cash-strapped states to consider in the wake of COVID-19.

During the multi-month shutdown forced by the virus, states' collection of gas, sales, and gaming taxes were in trouble. Now coffers are running light, prompting some analysts to say more states will approve internet casinos and/or sports betting as avenues for generating revenue.

iGaming and sports wagering are in the early innings of growth, and as such, there will be some bumps in the road. Estimates run as high as \$20 billion apiece for the respective market sizes of online casinos and sports betting over the next several years, assuming more than 30 states come online.

"Nationwide, only 12 states are realizing tax revenues from legal sports betting's \$22.2 billion handle, totaling \$210.3 million in sports betting tax revenues from June 1, 2018, to June 29, 2020, according to Legal Sports Report, notes Colby. "However, an indicator of the sizeable nationwide appetite for sports betting is visible in the estimated handle of bets placed through bookies and legal offshore sportsbooks, totaling \$150 billion annually, according to the American Gaming Association."

Today, the number of states where sports betting is permitted and operational is 18 (some states joined the fray during the coronavirus shutdown) and that rising number could provide some ballast to municipal bonds and HYD in the future.

### **ETF TRENDS**

by TOM LYDON on JULY 13, 2020

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## **[How Did Post-2008 Reforms Affect the Muni Bond Market?](#)**

The global financial crisis of 2008 led to far-reaching changes in financial regulation. Papers presented at the [2020 Municipal Finance Conference](#) investigate two aspects of the impact of these changes on the municipal bond market.

In 2016, the Securities and Exchange Commission implemented a series of reforms designed to reduce the risk of runs on money market mutual funds (MMFs) such as the ones that occurred during the financial crisis. The new regulations required funds held by institutional investors to adopt a floating net asset value (NAV) instead of maintaining a fixed \$1 per share NAV, among other things. This reform impacted tax-exempt municipal MMFs, which were a crucial source of financing for state and local governments as they held over \$200 billion in municipal government debt.

[Chuck Boyer and Kelly Posenau](#) of the University of Chicago Booth School of Business find that the reform led to a dramatic drop in demand for tax-exempt funds. In turn, tax-exempt fund holdings of municipal debt dropped from \$225 billion at the end of 2015 to under \$125 billion at the end of 2016. The authors show that this drop in demand was associated with an increase in short-term borrowing costs. They also observe a larger increase in short-term borrowing rates for municipalities with a larger share of borrowing from institutional funds. Importantly, since the reform mainly targeted institutional funds, these municipalities were more exposed to the demand shock. Furthermore, smaller issuers and sectors were most affected by the reform. The authors conclude that “any policies which may decrease the attractiveness of funds holding tax-exempt municipal debt may lead to decreased lending to municipal governments and consequently higher borrowing costs.”

In another post-crisis change, the Basel Committee on Banking Supervision required banks to maintain a minimum liquidity coverage ratio (LCR) based on the amount of high-quality liquid assets (HQLA) on their balance sheets—basically enough liquidity to last during 30 days of stress. Initially, U.S. regulators decided that municipal bonds would not be considered HQLA. Banking regulators initially questioned the liquidity of municipal bonds and decided against classifying them as HQLA. The Federal Reserve Board unilaterally reversed this decision a year later and allowed general obligation municipal bonds (i.e., bonds backed up with the full faith and credit of the issuer) to be considered as HQLA, but not revenue bonds (i.e., bonds backed by a specific revenue stream).

[Jacob Ott](#) from the University of Minnesota finds that changing this rule had important effects on municipal bond markets. Including general obligation bonds as HQLA led to an increase in bank demand for these bonds. This led to a decrease of about 5 basis points in the spread between the yields on general obligation bonds and revenue bonds. While this decrease might appear small, Ott points out that since the average yield spread in his sample is 25 basis points, this result is economically significant. Importantly, he finds no evidence that this decrease in yields reflected a change in risk. Rather, municipalities that are able to issue both types of bonds issued a higher proportion of general obligation bonds in the aftermath of the rule change. The author concludes that “classifying general obligation municipal bonds as high-quality liquid assets in the regulatory accounting for the liquidity coverage ratio has a spillover effect by influencing municipal market pricing and behavior.”

## **The Brookings Institute**

by Manuel Alcalá Kovalski and David Wessel Monday, July 13, 2020

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### **[Nuveen's Junk Muni Fund Received \\$1 Billion Lifeline From TIAA.](#)**

- **TIAA, Nuveen's parent, bought shares as investors yanked funds**
- **Investment provided cash as funds were hit by forced selling**

In March, when investors were pulling record amounts of cash out of municipal bond funds as the

coronavirus shut down much of the U.S., Nuveen's parent, TIAA, extended a lifeline to the high-yield fund run by investment star John Miller.

With the withdrawals triggering rounds of forced selling that drove bond prices into virtual free fall, TIAA stepped up and purchased \$1.1 billion worth of shares in the Nuveen fund, the largest focused on the riskiest debt sold through state and local government agencies, according to a regulatory filing.

TIAA, with \$1.1 trillion of assets under management, purchased \$350 million worth of the fund's shares on March 19 and another \$750 million on March 26, according to the filing.

The purchases provided a crucial source of money as investors yanked about \$3.7 billion from Nuveen's high-yield fund in March, according to Refinitiv Lipper US Fund Flows data. The mass exodus from the market forced managers to dump securities to raise cash, triggering a vicious cycle of selling that sent prices tumbling by the most in at least four decades.

TIAA bought the shares "to provide the Fund with additional cash to meet redemptions and to reduce the Fund's borrowings, and to provide TIAA itself with an attractive investment with a desirable risk profile," the filing said.

The rout put considerable pressure on mutual funds like Nuveen's, some of which used borrowed money to enhance returns. In March, Nuveen's high-yield muni fund unwound \$410 million of tender-option bond trusts, reducing leverage that magnified the fund's losses during the sell-off.

The investment by TIAA was well timed, coming just before the economic stimulus package enacted by Congress put an end to the panic racing through Wall Street. The prices of even the riskiest municipal bonds have since rebounded, paring most of March's losses, and investors have been sending cash back to mutual funds, including Miller's.

The Nuveen high-yield fund's shares, which fell to as low as \$14.63 on March 23, rebounded to \$16.91 by Wednesday, according to data compiled by Bloomberg.

TIAA is known for providing retirement services and insurance to teachers. The company has no publicly traded stock.

TIAA has sold the shares and made a profit on the investment, said Jessica Greaney, a Nuveen spokesperson.

"The purchases were made by the TIAA General Account in March, reflecting the general account's recognition that the municipal market had been dislocated from fundamentals and that Nuveen's market expertise would create value," she said in a statement. "Indeed the general account has since redeemed and realized a very attractive return on the investment."

## **Bloomberg Markets**

By Martin Z Braun

July 9, 2020, 5:56 AM PDT

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## **Bond Investors Have Been Jumping Back into Muni ETFs.**

The coronavirus pandemic has taken its toll on the municipal bond market as shutdowns and record unemployment cut down on business activity and the stable source of revenue, but investors have been jumping back into munis and related exchange traded funds.

Ten municipal borrowers defaulted for the first time in May and another 10 followed suit in June, the highest default rates for those months since 2012, when borrowers were still recovering from the 2008 financial crisis, the Wall Street Journal reports.

Many municipal borrowers are suffering from the negative consequences of a precipitous falloff in the collection of sales, income and hotel taxes, airport fees, and other revenues.

Nevertheless, investors are seeing a buying opportunity as many hunt for yields and look for the relative safety of bonds over equities. Since mid-May, investors have funneled \$11 billion back into muni bond mutual funds, or over one-third the amount was withdrawn in March and early April, according to Refinitiv data.

Among the most popular muni bond ETF plays, the iShares National Muni Bond ETF (NYSEArca: MUB) attracted \$1.4 billion in net inflows and Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB) brought in \$595 million since mid-May, according to ETFdb data.

The inflows have continued unabated even as some government and nonprofit borrowers face financial problems. For example, universities, convention centers, student housing, senior living facilities, and some transportation projects face significant revenue disruptions, and those in trouble could fall into insolvency.

Despite these risks, Dan Genter, chief executive of Los Angeles-based RNC Genter, noted that many of his clients are shifting into municipal bonds to avoid the ongoing uncertainty and volatility spikes in the stock markets.

"The fire alarm has sounded, and people really need to go look at their bond portfolios," Genter told the WSJ.

### **ETF TRENDS**

by MAX CHEN on JULY 6, 2020

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## **Municipal Bond CEFs Still Providing Good Value And Safety.**

### **Summary**

- It has been hard to feel confident in this space in the last couple of months due to both liquidity concerns at the outset and credit concerns more recently.
- The combination of these two risks pushed the ratio of AAA muni yields to Treasuries to highs rarely seen. Typically near 85%, the ratio hit over 200%.
- We have seen rapidly-rising muni cef NAVs. During these periods, waiting for the discount-based timing flag to flip from HOLD to BUY can result in a higher buy price.
- We have updated the buy under and sell over thresholds based on the new NAV yields and all the distribution changes since June 1.

[Continue reading.](#)

## **Seeking Alpha**

Alpha Gen Capital

Jul. 7, 2020

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### **The Muni Market Overall is Set for More Gains, but Some Bonds are Riskier Than They Appear.**

#### **KEY POINTS**

- In the bond universe, munis are cheap but buyers need to beware of what is in their muni portfolio as Covid exposure has not impacted all sectors equally.
- The market should find a positive catalyst this summer in another round of federal aid, which Congress will address later this month.
- Water and sewer bonds, with their steady revenue stream, outperformed other sectors in the first half, while hospitals and transportation were the weakest.
- Strategists say education bonds provide opportunities, but investors should pick carefully because the coronavirus could have a big impact on the revenues of some private schools.

[Continue reading.](#)

**cnbc.com**

by Patti Domm

JUL 9 20202

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### **BDA: Fed Economists Cite Municipal Market's Recovery.**

Economists at the Federal Reserve Bank of New York released a report yesterday on the performance of the municipal market during the pandemic. The report highlights the extraordinary volatility and yield spikes in the municipal market in March and the stabilization that has occurred since. The report examines trends such as the movement of the yield curve, municipal bond mutual fund outflows, and issuance patterns to track the market's response to the virus.

The report concludes by saying "both the primary and secondary markets for municipal securities underwent considerable stress during the early stages of the COVID-19 pandemic in the United States. Market conditions for municipal securities have improved significantly since then: yields for most issuers have receded to below pre-pandemic levels, outflows from municipal bond mutual funds have turned into inflows, and issuance has picked up." The report also notes continued market stress for lower rated issuers.

The New York Fed's report is available [here](#). Please call or write with any questions.

**Bond Dealers of America**

June 30, 2020

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## **BDA Support for HR 2 and Muni Bond Provisions - Including IDB Expansion.**

### **AR bill being introduced in Senate today**

BDA today sent a letter to House Speaker Nancy Pelosi (D-CA) and House Minority Leader Kevin McCarthy (R-CA) in support of HR 2, the Moving Forward Act. HR 2 would reauthorize federal surface transportation grant programs as well as restore tax-exempt advance refundings and make other improvements to tax-exempt bond law.

Our letter to the congressional leaders emphasizes provisions in HR 2 intended to expand the use of small issue industrial development and first-time farmer bonds. HR 2 incorporates the provisions of HR 5422, legislation sponsored by Reps. Stephanie Murphy (D-FL) and Darin LaHood (R-IL). Their bill would raise the capitalization limit for small manufacturing companies eligible to use small issue IDBs from \$10 to \$30 million and index that number for inflation annually. The bill would raise the issuance cap for first time farmers from \$450,000 to \$552,500, also indexed for inflation going forward, and make other related changes. All those provisions are included in HR 2.

Our letter on HR 2 also emphasized our support for provisions in the bill intended to expand bank qualified bonds and reinstate tax-exempt advance refundings and direct pay bonds. We expect the House to vote on HR 2 as early as today, but certainly before the July 4 recess.

In addition, we expect that legislation to restore advance refundings will be introduced today in the US Senate. We anticipate that Sens. Roger Wicker (R-MS) and Debbie Stabenow (D-MI) will introduce a bill which would restore advance refunding law to its status before the 2017 tax bill was enacted. This would be a companion bill to HR 2772, advance refunding legislation introduced last year in the House of Representatives. HR 2772 has been incorporated into HR 2 and will be voted on by the House this week. Other expected original coposnors in the Senate include Sens. Michael Bennet (D-CO), Shelly Moore Capito (R-WV), John Barrasso (R-WY), Bob Menendez (D-NJ), Jerry Moran (R-KS), and Tom Carper (D-DE).

A copy of our letter is available [here](#). Please call if you have any questions.

### **Bond Dealers of America**

July 1, 2020

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## **BDA Sends Letter of Support to Senators Wicker (R-MS) and Stabenow (D-MI) on Advanced Refundings.**

[Read the Letter.](#)

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## **Investors Want Details on Bonds that Pay for Police Misconduct.**

## **Bond investors seek details on police settlements**

As Black Lives Matter protests march on around the U.S., some investment advisers and asset managers are pushing for more disclosure on so-called judgment allocation bonds issued by cities and states to fund payouts for settlements of lawsuits against police.

Protests against police brutality sparked by George Floyd's killing in Minneapolis in May have drawn attention to the role of municipal bonds in covering the costs of police misconduct. When governments lack the budget to pay settlements, they often turn to Wall Street to raise money with judgment allocation bonds.

The City of Los Angeles used Judgement Obligation Bond, Series 2009-A to cover \$20.5 million of the \$95 million paid out to settle lawsuits connected with the Rampart Police corruption scandal of the 1990s and 2000s, according to a 2018 report by the Action Center for Race and the Economy. The scandal involved members of the city's anti-gang Rampart Division, who allegedly abused suspects.

Such bonds defray immediate costs to the government, though taxpayers end up footing the legal bill over time as the bonds are repaid with interest. They are also on the hook for fees paid to underwrite them. Banks hired by Los Angeles to underwrite 2009 and 2010 judgment obligation bonds collected more than \$1 million in fees.

"This is just starting to filter into investors' consciousness," said Maya Philipson, a partner at wealth management firm Robasciotti & Philipson, which has studied the role bonds play in funding police lawsuit payouts for its clients. "As soon as we start giving them education, they get really up in arms about it. It's not something they want to support."

Rachel Robasciotti, the firm's founder, added that more disclosure would empower investors.

"The trouble with municipal bonds is that people tend to think of them as wholly good," she said in an interview. "But if they are paying out settlements for police misconduct, what they're doing is enabling that behavior by offering a credit line to those who are abusing their citizens."

"If the municipality as a whole saw police conduct as something that impacts their ability to do long-term investment there, I think the pressure would come in for policy reform from all sides," she said.

Cities, states and utilities traditionally use municipal bonds to fund public works, including updates to school facilities, switches to renewable energy sources, expansions of public transportation networks, or building healthcare infrastructure. They are also used to cover budget shortfalls.

Eric Glass, a portfolio manager for AllianceBernstein, said it can be difficult to discern between bonds funding settlements and those raising money for public projects because municipalities rarely provide details. AllianceBernstein manages \$542 billion in assets including municipal bonds.

"You get to pick and choose what you invest in, but it isn't always clear," Glass told CQ Roll Call in an interview, adding that funds tied to settlements are often lumped into general obligation bonds. "If investors knew they were paying off judgments against police departments, I don't think they would buy the bonds."

### **'No visibility'**

The absence of disclosures means there's not much widely available data on how common it is for cities to pay for civil rights abuse settlements through bonds. The Action Center on Race and the Economy in 2018 released a report detailing settlements paid for through bonds by 12 cities and

counties, totaling well into millions of dollars.

From 2008 to 2017, Los Angeles raised \$71.4 million through municipal bonds to pay for settlements involving police misconduct. During that period, Milwaukee raised about \$26 million, the study said.

For Chicago, the center found it difficult to confirm an exact payout amount funded by bonds because the city doesn't track the specific settlements that bond proceeds are used for, though it's transparent about the use of bonds to pay for legal costs in general. The center estimated that from 2010 to 2017 the city raised almost \$710 million in bonds to fund settlements.

City officials didn't immediately return CQ Roll Call's requests for comment.

Maurice BP-Weeks, co-executive director of the center, told CQ Roll Call that the research isn't meant to discourage the settlements. Rather, he said his goal is to draw attention to the cost of misconduct to the cities and pressure municipalities to deduct payouts from police department budgets.

Collecting data on even 12 municipalities is labor intensive.

Action Center on Race and the Economy researchers cross-referenced news reports of settlements with amounts raised through bonds reported to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, which houses munibond data and disclosures. They also spoke directly with city officials, poured over municipal documents, and used Freedom of Information Act requests to access the data.

Ryan Bowers, co-founder of Activest, a policy group that seeks to pressure bond issuers and investors on social issues, said the bonds shift the settlement costs onto future taxpayers and protects police departments. He said investors and city residents lack basic information about the number of police misconduct incidents, how many result in lawsuits, or how many end in settlements or their amounts.

"We have no visibility on that," he said.

### **'Each and every dollar'**

AllianceBernstein's Glass says he wants to see cities disclose an itemized list of what "each and every dollar" raised through a bond pays for. Disclosures about the settlements paid out by the city or structures in place to oversee police departments would also benefit investors, he said.

In addition to a moral case, there are financial reasons for more disclosure around the use of municipal bonds, Glass said. When settlements are paid out, that has a direct impact on the profit and loss statement of a city. If a company uses insurance to pay its legal costs, those premiums will increase. A smaller community could be bankrupted by a hefty settlement. All of those considerations influence whether a city's bonds are a smart investment, he said.

Maggie Kulyk, CEO of the sustainable asset management firm Chicory Wealth, said she would like to see more disclosure from cities, and a trail of expensive bond-funded settlements would make her think twice about advising a client to invest in a municipality. The wealth management firm works with clients who want their investments to align with progressive values.

"I think it does speak to the financial viability of a community," she said. "I would be very hesitant to invest in that city or state for fear that it would not have a good long-term trajectory."

An analysis released last month by credit rating company Moody's on the potential effects of the Black Lives Matter protests supports that assessment. Cities that fail to address the root causes of the protests could take an economic hit, it said, adding that long-term credit health will depend on whether unrest recurs and whether a municipality can adopt policies that improve racial and income inequality.

"These solutions could take multiple years to implement and could be costly," Moody's said.

### **Pending legislation**

Investors could push for greater transparency on the local, state, or federal level. Bowers pointed to city auditors or state treasurers as officials who could require more disclosure of police misconduct cases.

The Governmental Accounting Standards Board, an independent regulator that sets standards for state and local governments, is another possibility. The board could require municipal governments to share their expected exposure to litigation tied to police misconduct as part of risk disclosures, he said.

In Congress, Rep. Gregory W. Meeks introduced a bill in June that would push for more transparency on Wall Street's role in the process. The proposal would require banks to report if they underwrite a municipal bond that funds police payouts and disclose what they earned from the work.

The New York Democrat told CQ Roll Call that the proposal is about creating more transparency and accountability for cities, their police departments, and banks. The bill includes a provision that would require banks to disclose whether they partnered with a minority- or woman-owned business on the work.

"That money should be further invested in communities that have been victimized by this bad behavior," he said.

### **Roll Call**

By Caitlin Reilly

Posted July 1, 2020 at 6:09pm

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## **Where's the Greenium?**

Environmental, social, and governance (ESG) measurement, corporate social responsibility (CSR) activities, and socially responsible investing (SRI) are increasingly important research topics in both academic and professional areas. This recent research focus has been primarily due to the increased number of assets invested following ESG principles, now reportedly more than one-quarter of the \$88 trillion of assets under management globally. While there is growing evidence of an association between ESG and CSR activities on security pricing, comparatively little is known about the channels through which ESG factors may affect asset prices.

A question of primary importance in this area is whether ESG investments have value to investors beyond the expected risk and return attributes of a security. For instance, if we were to present investors with a high-ESG security and a low-ESG security whose risk and returns are identical,

would investors pay more for the high-ESG security? While standard arguments suggest that these securities should price identically, there is a growing literature that argues otherwise. Several studies present theoretical models where investors are willing to give up financial benefits to invest in environmentally friendly or socially responsible assets.

There is evidence of these effects showing that both investors and managers value green investments for their societal benefits. In experimental markets, investors respond positively to reports of green investments even when they are independent of future cash flows and risk, suggesting a tradeoff between wealth and societal benefits. The critical question is whether such experimental results generalize to actual market settings.

In our analysis, we focus on U.S. municipal issuers because these entities have been one of the largest issuers of green bonds. This setting is ideal for exploring our research question because these securities are explicitly issued to fund environmentally sustainable projects. As important, the way municipalities issue bonds provides a novel experiment to assess whether investors value the societal benefits associated with ESG activities. We leverage three unique institutional features of the U.S. municipal securities market to implement a methodological approach that is less prone to the standard correlated omitted-variable critique of prior ESG research.

The first is that municipal issuers commonly price multiple tranches of securities, both green and nongreen securities, on the same day with similar maturities. This occurs for several reasons, such as issuer requirements to track their use of funds to comply with IRS requirements and limits to bond issuance by state constitutional mandates.

The second feature of municipal bonds is that the credit for these green bonds is identical to the credit for their nongreen counterparts. Green bonds are identical to ordinary municipal bonds in all ways except that the use of proceeds is allocated to fund “environmentally friendly projects” (e.g., sustainable water management and energy production). The only effective difference between a green bond and a nongreen bond is the use of proceeds. Thus we can attribute any differences in security pricing to investor preferences for nonmonetary security features rather than differences in expectations about future cash flows or risk.

Finally, there are strong reasons to believe that our setting is one where we are most likely to find a greenium (if it exists), though it is a relatively small and specialized asset class. Specifically, the average issuance size (supply) in our sample is small (\$5.36 million on average) compared with corporate green-bond issuances, which are often hundreds of millions (or even billions) of dollars. Since the size of green issues is small, there is ample opportunity for green investors to be the marginal trader (which would not be the case for very large green issues in a market setting where green investors do not have the capacity to buy most of the offering). Thus our focus on small issues of green municipal securities is very likely to provide a powerful test of whether a greenium exists.

The primary result of our paper is that the greenium, or the premium that green assets trade to otherwise identical nongreen securities, is precisely equal to zero. Our results are based on a sample of 640 matched pairs of green and nongreen issues given out on the same day, with identical maturity and rating, and issued by the same municipality. We observe an economically trivial difference in yield (and spread) between green and nongreen bonds of approximately 0.45 basis points (indicating a slight green-bond discount). In fact, in approximately 85 percent of matched cases, the differential yield is exactly zero. These results provide strong evidence that investors are unwilling to sacrifice returns to support environmentally friendly projects, and thus the greenium is equal to zero.

We also examine how much investment bankers charge for issuing green securities (or the

underwriter's discount) in comparison to nongreen securities. This is important for two reasons. First, it indicates whether banks consider green securities as riskier or more challenging to underwrite. Second, one of the primary challenges attributed to the growth of green bonds in municipal markets is the perceived cost of issuance. For our matched sample, we find that the underwriting cost charged for issuing green bonds is higher than nongreen bonds. Specifically, borrowing costs are on average approximately 10 percent higher for green securities than almost identical nongreen securities. The combination of equivalent yield and higher transactions costs is not consistent with the existence of greenium.

Concerns over greenwashing have arisen among investors due to the absence of a universal set of standards on whether a security is actually green. In response to these concerns, several agencies have created a new form of economic certification to ensure that issuers of green bonds are using the financing proceeds for environmentally friendly purposes. The Climate Bonds Initiative is the leading provider of these services and has been used by a number of municipalities to provide third-party certification. We explore the pricing effects of this certification and find no evidence that this leads to incremental yield benefits to municipalities. This finding mitigates concerns that greenwashing is responsible for our documented lack of premium. Additional tests relate to the underlying use of proceeds, and bond-specific green ratings also support these inferences.

In our final sets of tests, we explore various nonissuance cost-related benefits associated with green issuances. Specifically, some issuers have suggested that green issuances help to broaden the issuers' base of investors. We find evidence consistent with this, as green issues have a lower amount of ownership concentration by approximately 12–20 percent. Other market participants have also suggested that while a greenium does not currently exist, as the market matures and gains momentum, a greenium may emerge. We hypothesize and find that those states that value environmental sustainability issue more green bonds and pay these slightly higher costs for their perceived future benefits. Despite this effect, even in states with the highest level of green preferences (and therefore issuance), we still find no evidence of a current greenium.

Our analyses also provide new policy-relevant insights on the pricing of green securities of municipal markets and the benefits of third-party certification. Based on prior research that claims to document a greenium, some policy analysts are calling for more green-bond issuance to reduce the cost of government borrowing. Our results suggest just the opposite conclusion. Not only is there no pricing differential but investment banks also appear to charge slightly more to issue green bonds on average. As there are other costs associated with green-bond issuance, our results suggest that municipalities increase their borrowing costs by issuing green bonds.

NOTE: This research brief is based on David Larcker and Edward Watts, "Where's the Greenium?," *Journal of Accounting and Economics* 69, no. 2–3 (April–May 2020), <https://www.sciencedirect.com/science/article/abs/pii/S0165410120300148>.

[Download the Research Briefs in Economic Policy](#)

## **The Cato Institute**

Research Briefs in Economic Policy No. 221

By David F. Larcker and Edward Watts

July 1, 2020



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## **'Social Bonds' are Surging as Conscious Investing Turns Mainstream.**

### KEY POINTS

- According to S&P Global Ratings, social bond issuance has quadrupled so far this year as conscious investors combine purpose with profit.
- Social bonds are already being used to address rising inequalities created by the coronavirus pandemic.
- Morgan Stanley says \$32 billion dollars of social and sustainability bonds were issued in April 2020 alone.

New research shows the issuance of social bonds has reached record levels and more than quadrupled so far this year, as conscious investors combine profit and purpose to address rising inequalities created by the coronavirus.

[Continue reading.](#)

**cnbc.com**

by Dan Murphy

JUN 23 2020

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## **Coronavirus Surge Strains Municipal Bond Market, but Investors Still Pile In.**

**Despite pressure on state and local governments from lost tax revenue, investors are drawn by yield and relative safety**

The recent surge in Covid-19 cases has brought more bad news for a municipal bond market already reeling from the impact of coast-to-coast shutdowns and record unemployment.

On Wednesday, the U.S. Virgin Islands Water and Power Authority narrowly avoided default. The utility got a badly needed reprieve when Chicago-based Nuveen LLC agreed to accept a \$34 million payment due Wednesday on Aug. 31 instead.

Analysts question whether the territory has enough money on hand to make the payment.

The territory isn't alone in facing pressure. Ten municipal borrowers defaulted for the first time in May and another 10 in June, the highest for those months since 2012, when borrowers were still absorbing hits from the 2008 financial crisis, according to Municipal Market Analytics data.

Many municipal borrowers are being crushed by the massive falloff in the collection of sales, income and hotel taxes, airport fees and other revenues. Even some investment-grade issuers are showing signs of serious strain in their abilities to pay future debts.

Despite the pressure on issuers, some investors are seeing opportunity rather than a reason for panic.

Even with coronavirus losses weighing heavily on the roughly \$4 trillion municipal market, investors

are piling back into municipal debt, hungry for yield and seeking more safety than the stock market can provide. Many fled munis in droves when the U.S. first shut down in March, but investors seem to have overcome their initial fears and have plowed about \$11 billion back into muni mutual funds since mid-May, more than one-third of the amount withdrawn in March and early April, according to Refinitiv.

Inflows have continued even as some government and nonprofit borrowers face financial struggles. Universities, convention centers, student housing, senior living facilities and some transportation projects are confronting significant revenue disruptions, and those already in trouble could tip into insolvency. The Archdiocese of New Orleans, already facing expensive payouts for sexual-abuse claims, filed for bankruptcy in May and said in a filing June 26 that it wouldn't make a debt payment due Wednesday.

Dan Genter, chief executive of Los Angeles-based RNC Genter, said many of his clients are shifting more of their portfolios into bonds to avoid the uncertainty and volatility of stocks. But the stakes of picking which muni bonds to invest in are particularly high, he said, and the risks include more than default. A bond that is downgraded to junk can lose 25% of its market value, a concern for any investor who wants to resell it rather than wait until maturity.

"The fire alarm has sounded, and people really need to go look at their bond portfolios," Mr. Genter said.

High-yield muni funds lost \$14 billion in investments during 11 weeks of almost ceaseless outflows from the beginning of March through mid-May, according to Refinitiv.

Those risky funds are now in their sixth straight week of inflows and have added back nearly \$2 billion. The buying has pushed up prices, and the S&P Municipal Bond High Yield Index has regained 68% of its March losses.

Some high-yield borrowers including the Virgin Islands face a deteriorating financial picture, however, as tourism revenue dries up. About \$345 million worth of debt issued by the junk-rated U.S. territory sits in Nuveen mutual funds, most of them high-yield. The debt, whose interest is exempt from all state taxes, also appears in state-specific funds not listed as high-yield for Arizona, Kansas, Louisiana, Maryland, New Mexico, Virginia and Wisconsin, according to records of holdings disclosed by the firm. In the Wisconsin fund, Virgin Islands debt makes up 4% of total holdings.

A Nuveen spokeswoman said most of the debt "is secured by dedicated tax revenues backed by strong security features." The Water and Power Authority debt on which Nuveen granted the two-month extension is held in four high-yield funds, she said.

Virgin Islands Gov. Albert Bryan Jr. said last month that the pandemic had caused significant shortfalls in revenue collections, but he still expected to be able "to find ways to streamline government operations while maintaining an acceptable level of service."

The many U.S. towns that thrive on local or regional tourism are in particular distress, and nearly 90% of cities are projecting budget shortfalls, according to April surveys by the National League of Cities and the U.S. Conference of Mayors. More than a third reported they were having to make cuts to capital improvements, infrastructure maintenance and other critical public works services.

New Jersey's governor and New York City's mayor said this week they would postpone the planned resumption of indoor restaurant dining as Covid-19 cases spiked across the country. Even before those announcements, New York City was expecting to lay off or furlough as many as 22,000

employees in the fall, and New Jersey was anticipating a \$10 billion budget shortfall over the next two years.

“The one certainty forecasters can agree on at this point is that uncertainty lies ahead,” said New Jersey Treasurer Elizabeth Maher Muoio. “Unfortunately, this means we must brace ourselves for more painful decisions on the road ahead.”

The delay in indoor dining meant casinos scheduled to reopen in Atlantic City this week will have to do so without food or alcohol, a serious blow to the economy of the city, which narrowly avoided default in 2016. The value of taxable property in Atlantic City has been falling since the recession, and the unemployment rate already topped 8% before the pandemic in February, according to a May report by Moody’s Investors Service, which rates the city’s debt as speculative, or junk, grade.

“It’s not a popular decision due to the fact that a lot of casinos and a lot of restaurants were looking forward to doing indoor dining this weekend,” Atlantic City Mayor Marty Small said of the delay announced by Gov. Phil Murphy days before the Fourth of July holiday.

Congress hasn’t approved any aid to make up for lost revenue, and cities and states are suffering massive losses in sales and income tax collection as the pandemic has driven unemployment to record levels and eroded consumer spending.

Mikhail Foux, head of municipal strategy at Barclays, said the widening spread of the virus might inspire more stimulus measures in Congress, which would help the municipal market.

“The negative might actually become a positive,” he said.

## **The Wall Street Journal**

By Heather Gillers

July 2, 2020

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### **[Junk Munis See Best Run Since 2009 With Pandemic Panic a Memory.](#)**

- **Bonds see big back-to-back gains as investors seek high yields**
- **Nuveen’s John Miller says people ‘are no longer in panic mode’**

Since the middle of May, mutual funds that buy the riskiest state and local government bonds have received hundreds of millions of dollars of new cash from investors hunting for higher returns.

At the same time, the economic chaos unleashed by the coronavirus has put many speculative projects on hold, causing sales of junk and unrated municipal bonds to slow to a trickle.

That mismatch between supply and demand had a predictable effect: Prices of high-yield securities have rallied, driving them to a more than 8% gain from May through June. That marks the best two-month period since 2009, according to the Bloomberg Barclays indexes.

[Continue reading.](#)

**Bloomberg Markets**

By Shruti Singh and Danielle Moran

July 2, 2020, 10:33 AM PDT

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## **Bottoms-Up Bond Fund Manager DiMella Bullish On Municipals.**

Buy insured municipal bonds and taxable munis while seeking mismatches in the bond market, said Robert DiMella, executive managing director of MacKay Shields.

“That’s what I am doing,” DiMella said during a recent SHOOKtalk.

This kind of advice probably seems counter intuitive given the bond market meltdown this past spring. Last month, Fed Chairman Jerome H. Powell’s said it will take years for the economy to recover. He promised to hold interest rates near zero for the foreseeable future.

Not exactly positive news for bond investors.

SHOOKtalks turned to DiMella, 53, a bond market sage. DiMella co-manages MacKay’s \$6.5 billion tax-free bond MainStay Tax Free Bond (MTBIX), up 2.36% year to date.

As an active bond fund manager, MacKay applies a bottoms-up approach to investing, exploiting mismatches in the market like what happened this past March when \$40 billion exited the market within a matter of weeks.

“Investors just said I just want to get cash in my portfolio. People were worried,” DiMella told SHOOKtalks. “These were indiscriminate sellers. They didn’t care what price they sold a bond at. We are still in the midst of this dislocation playing out.”

Since March, DiMella, a top executive for a team that manages some \$51 billion in municipal bonds, has been buying top rated bonds other investors were dumping, reaping higher yields.

DiMella is a big fan of bonds carrying insurance against default, limiting default risk.

“You are buying a bond with both belt and suspenders on it,” he says. “The bond is guaranteed by the issuer, but then you have this financial wrapper on it. That does a couple things. It protects you from default, but it also protects you in case you get a delay in coupon payments. The financial guarantor will actually pay you.”

The insurance, or what is commonly called a wrap, makes the bond easier to sell, giving the bondholder greater liquidity, DiMella said. “Insured bonds are a lot more liquid than uninsured bonds.”

MacKay’s Municipal Insured ETF (MMIN) with assets of \$110 million is 90 percent focused on insured bonds and sports an annualized return of 5.6% since the fund’s inception in 2017.

DiMella says financial advisers often will buy the MainStay Tax Free Bond, while pairing it with Municipal Insured EFT, the only insured exchange traded municipal bond fund on the market that is actively managed.

He is also big on taxable munis. MacKay’s MainStay Infrastructure (MGOIX), is a \$540 million taxable bond fund that focuses on buying public infrastructure bonds. It’s 10-year return is 2.78

percent.

DiMella says it is only a matter of time before the federal government pushes forward with financing an estimated \$4.5 trillion in road, bridge, tunnel, and sea wall projects. DiMella expects the project cost to be shared with city and state governments and the financing will come, in part, from the issuance of taxable bonds.

DiMella shrugs off critics who say bonds are dead money for the foreseeable future. "Everyone needs income. You don't want to be 100 percent in equities," he says noting that insured bonds offer a better yield in a down market. "Being in equities can be painful as we witnessed in the first quarter."

## **Forbes**

by R.J. Shook

Jul 1, 2020

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### **[The Crushing Budget Blow Awaiting State and Local Government Workers.](#)**

State and local government jobs are being gutted, even as the labor market shows signs of a slight recovery.

**Why it matters:** The coronavirus pandemic [blew a hole in state and local government budgets](#). A slew of states [cut spending and jobs](#) — with more planned layoffs announced this week as states try to balance budgets.

- Even more could be coming as states face more pressure from spiking caseloads and people hunkering back down.

[Continue reading.](#)

AXIOS

by Courtenay Brown

Jul 2, 2020

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### **[The Coronavirus Crisis is Costing States and Locals Hundreds of Billions, Analysis Finds.](#)**

**State and local budget cuts aren't an abstraction to most Americans: libraries will close, class sizes will go up, potholes won't get filled, and forget improvements or expansion**

Just how bad is the economic impact of the COVID-19 pandemic?

On the national and international level, things are tough, but perhaps a little more manageable than many analysts had feared at the onset of the crisis. Corporations are reporting earnings that are

better than Wall Street expected, jobs were added, not lost, in May, and central banks and fiscal policymakers stepped up with robust aid packages.

On the state and local level, it's a whole different ballgame, and observers of public finance and the municipal bond market are bracing for a long, slow burn. States, counties, cities and towns are on the hook for most of the costs associated with the pandemic — health care, emergency responses, and so on — even as their tax revenues, mostly from income and sales taxes, dwindle. Even revenue streams often seen as safe, like usage fees for things like airports, toll roads, arena ticket charges, and so on, have swooned in line with economic activity.

[Continue reading.](#)

## **MarketWatch**

By Andrea Riquier

Published: July 3, 2020 at 6:49 a.m. ET

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### **[COVID-19 Pandemic Could Slash 2020-21 State Revenues By \\$200 Billion.](#)**

Revised forecast [data](#) from 27 states suggest tax revenues are expected to fall \$34 billion short of pre-COVID-19 forecasts in fiscal year 2020 and \$80 billion short in fiscal year 2021 (Figure 1). Based on the information from those 27 states, total tax revenue shortfalls for all 50 states will be roughly \$75 billion in fiscal year 2020 and \$125 billion in fiscal year 2021.

Fiscal year 2021 begins July 1, 2020 in 46 states. Last January, all states were projecting solid revenue growth for the remainder of the 2020 budget year. But the COVID-19 pandemic hit the states like a tsunami starting in March.

Several states have not yet passed their fiscal year 2021 budgets. Revenue forecasters in some of these states are waiting for final individual income tax payments now due by July 15th to revise their estimates. But 27 states already have updated their projections, including some of the largest such as New York, California, and Illinois.

[Continue reading.](#)

## **Tax Policy Center.**

by Lucy Dadayan

July 1, 2020

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### **[U.S. States Beg, Borrow and Cut to Close Massive Budget Gaps.](#)**

- **Eleven states haven't passed a budget for the new fiscal year**
- **States race to pass budgets in face of worst crisis in decades**

It's crunch time for U.S. states as they face their worst fiscal crisis in decades brought on by the

Covid-19 pandemic that's decimated tax collections.

Eleven states have yet to enact a budget for the fiscal year that begins Wednesday. And for those that have, they've been forced to slash spending, lay off workers and count on billions of dollars in potential federal aid that remains bogged down in Washington.

"The biggest theme that we are seeing across state budgets is uncertainty," said Eric Kim, senior director of public finance at Fitch Ratings.

The financial crisis amid the pandemic is forcing states and cities to make tough choices even as they seek help from Washington. Moody's Analytics has projected that state and local governments will need at least \$500 billion in additional federal aid over the next two years to avoid major economic damage. While House Democrats passed a stimulus measure that would provide some \$1 trillion of aid to governments, the rescue has stalled in the Republican-led Senate.

Thirty-five states have enacted a full-year budget for fiscal 2021, including two — Virginia and Wyoming — that have authorized two-year budgets for both fiscal 2021 and fiscal 2022. Forty-six states operate on a fiscal year that begins July 1. New York starts its year on April 1, while Texas begins on Sept. 1, and Alabama and Michigan start on Oct. 1.

For those states that have yet to enact a full-year budget or temporary budget for fiscal 2021, some are awaiting their governors' signature, while others are holding off for updated economic and revenue estimates.

"Even with states that have enacted full-year budgets, this will be a banner year for mid-year adjustments," Kim said. "And that's because the revenue picture is constantly falling, and that's really going to be an unprecedented level of change for state budgets."

New Jersey opted to extend its fiscal year through Sept. 30, with lawmakers approving a temporary \$7.7 billion spending plan intended to buy the state more time to close the massive budget shortfall caused by business closings and record unemployment. It cuts or shifts \$5 billion in expenses.

Vermont also expects to enact a three-month temporary budget, and Massachusetts signed a temporary one-month budget for July. Kentucky, which normally operates on a two-year budget, passed a one-year spending plan, citing pandemic uncertainties.

The budget that Illinois enacted earlier this month allows the state to borrow up to \$5 billion from the Federal Reserve that could be repaid with anticipated federal aid. The state has already borrowed \$1.2 billion from the Municipal Liquidity Facility program to help pay down bills. Illinois's spending plan is "precariously balanced," according to S&P Global Ratings.

California Governor Gavin Newsom Monday signed a \$133.9 billion budget that defers almost \$13 billion in payments and borrows another \$9 billion internally to help fill a deficit expected to reach \$54 billion over two years. The spending plan is intended to avoid steep cuts in the hope that Washington will send additional aid by October.

Most states aren't depending on federal aid in their budgets, but they're "strongly advocating for it," Kim said.

"They are trying to position themselves that if they get the revenue," he said. "then they have a sense of the kinds of cuts they can roll back."

**Bloomberg Politics**

By Emmy Lucas

June 30, 2020, 11:02 AM PDT

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## **S&P: States Demonstrate Resilience As Cash Falls Short**

### **Key Takeaways**

- We have seen a notable uptick in short-term borrowing by states and payment deferrals to address sudden shortfalls.
- A majority of states will likely have sufficient cash to weather revenue declines through fiscal 2021.
- Short-term borrowing can make sense when states lack the internal cash resources to meet current obligations and deficits are temporary.
- Cash shortfalls signal fiscal stress when they become structural challenges.

As the COVID-19 pandemic wreaks havoc on revenue, S&P Global Ratings has observed that states are grappling with how to manage cash flow. Early forecasts indicate that state revenue declines will likely surpass the 11.6% drop during the Great Recession, exceeding the 8.0% median state rainy day fund balance. Many states extended tax-filing deadlines to July from April to provide taxpayer relief, exacerbating cash-flow pressures. At the same time, they are absorbing significant unbudgeted pandemic-related costs. Although the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds help offset pandemic-related expenses, the federal government has yet to provide support to offset lost tax revenue.

[Continue reading.](#)

30 Jun, 2020

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## **S&P: As COVID-19 Grips U.S. State Finances, Some Budget Debates Will Continue Well Beyond The Deadline.**

### **Key Takeaways**

- States' uncertainty about their finances due to COVID-19 and the recession is likely to cause some to delay action on fiscal 2021 spending plans beyond the July 1 fiscal start.
- 12 states have yet to enact a full-year fiscal 2021 budget. Reasons include compressed budget negotiations in a shortened legislative session, prioritizing closing current-year budget gaps, and waiting for updated economic and revenue estimates.
- Several have passed or plan to pass short-term or interim budgets until the revenue, expenditure, and federal aid picture comes into sharper focus, which is not uncommon during recessions.
- While late budget enactment is rarely a good sign, it is not necessarily an immediate threat to credit quality. Many states have procedures to keep operations going and protect debt service.

[Continue reading.](#)

29 Jun, 2020



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## **S&P Credit Trends: U.S. Public Finance Saw Calm Before COVID-19**

### **Key Takeaways**

- The upgrade-to-downgrade ratio for U.S. public finance in the first quarter was 1.2 to 1, lower than the 1.75 average for the last 12 quarters.
- Improvements in finances caused the most upgrades, with 42, followed by debt service coverage with 30.
- Deterioration in finances also caused the most downgrades, with 55, followed by business issues, which led to 13 downgrades.
- There were two defaults in the first quarter, both in housing.

Total U.S. public finance (USPF) rating actions before the COVID-19 pandemic hit painted a calmer picture. The housing and nonhousing sectors have averaged 263 upgrades and 148 downgrades quarterly over the past 12 quarters. In first-quarter 2020, there were 133 upgrades (down from 221 in fourth-quarter 2019) and 110 downgrades (down from 142 in fourth-quarter 2019). The ratio of upgrades to downgrades from January to March for the combined sectors was 1.21 to 1, down from 1.56 at the end of 2019 and below the trailing-12-month average of 1.82.

There were two defaults in the first quarter, the same as in the fourth quarter of 2019, both related to Glen Hope Harbor in Texas, which defaulted from 'CCC' in February when interest payments were missed on bonds issued to finance a senior living facility.

[Continue reading.](#)

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## **Fitch Ratings Updates Toll Road Criteria.**

Related Fitch Ratings Content: [Toll Roads, Bridges and Tunnels Rating Criteria](#)

Fitch Ratings-San Francisco-01 July 2020: Fitch Ratings has published an updated version of its "Toll Roads, Bridges and Tunnels Rating Criteria." This criteria updates Fitch's criteria of the same title published on March 24, 2020. The primary changes improve alignment with the Infrastructure and Project Finance Rating Criteria (March 2020) in the areas of debt structure, infrastructure development/renewal, and financial metric definitions.

Contact:

Scott Monroe  
Senior Director  
+1 415 732-5618  
Fitch Ratings, Inc.  
One Post Street  
San Francisco, CA 94104

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **No Rating Actions Expected After Fitch Ratings Updates U.S. Military Housing Rating Criteria.**

Related Fitch Ratings Content: [U.S. Military Housing Rating Criteria](#)

Fitch Ratings-New York-02 July 2020: Fitch Ratings has published an updated criteria report titled “U.S. Military Housing Rating Criteria.” The report replaces the existing criteria of the same title published on July 12, 2019.

No material changes to Fitch’s underlying methodology were made, and the updated criteria are not expected to result in rating actions..

The full report is available at [www.fitchratings.com](http://www.fitchratings.com).

Contact:

Mikiyon Alexander  
Senior Director  
+1-646-582-4796  
Fitch Ratings, Inc.  
300 W 57th Street  
New York, NY 10019

Teresa Galicia  
+1-312-368-2083

Jeurys Grullon  
+1-646-582-3605

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **Invest in Infrastructure with Qualified Infrastructure Bonds.**

We are experiencing interlocking and mutually reinforcing crises. Some, like COVID-19 and the resulting recession and massive unemployment, are sudden, like falling off a cliff.

Others, like droughts, floods, fires, sea level rise, and severe storms and mass extinctions caused by climate change, we are experiencing slowly like the frog in the proverbial pot; or explosively, like a punch to the gut.

The infrastructure crisis undergirds the COVID-19 and climate crises and saps our ability to be resilient. **The lack of robust, well designed, operated and maintained infrastructure—including roads, bridges and tunnels, water and energy facilities, mobility and transit projects, levees and sea walls, and communications networks but also schools, hospitals, and public and private buildings—is both a threat and damage multiplier.** Better infrastructure softens and manages impacts, and also can create jobs and help address structural

racism and inequality.

[Continue reading.](#)

## **National Resources Defense Council**

by Douglass Sims

July 01, 2020

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### **[SIFMA Statement on LOCAL Infrastructure Act.](#)**

Washington, D.C., July 1, 2020 – SIFMA today issued the following statement from SIFMA president and CEO Kenneth E. Bentsen, Jr. on the LOCAL Infrastructure Act:

“SIFMA commends Senators Roger Wicker (R-MS), Debbie Stabenow (D-MI), Michael Bennet (D-CO), Shelley Moore Capito (R-W.Va.), John Barrasso (R-WY), Bob Menendez (D-NJ), Jerry Moran (R-KS), and Tom Carper (D-DE) on their commitment to infrastructure investment, seen today with the introduction of the Lifting Our Communities through Advance Liquidity for Infrastructure (LOCAL Infrastructure) Act. This bipartisan, timely legislation reinstates advance refunding, which is a critical tool to help state and local governments lower their interest costs to more easily finance their infrastructure needs, such as schools, roads, and hospitals. Infrastructure spending is essential, and this legislation is particularly welcome now, when state and local governments are facing unprecedented expenses due to the COVID-19 pandemic.”

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SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

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### **[Municipal Coalition \(including the BDA\) Weighs in on Infrastructure Bill.](#)**

The House of Representatives is expected this week to take up H.R. 2, the Moving Forward Act, legislation to reauthorize and enhance infrastructure finance. Today a coalition of 25 municipal-focused organizations including BDA sent a letter to all members of Congress supporting HR 2 and urging congressional approval. The bill includes a number of municipal bond-related initiatives, including:

- Reinstatement of direct pay bonds with reimbursement rates starting at 42% in 2020-2024 and declining to 30% in 2027 and thereafter

- Reinstatement of advance refundings;
- Expansion of bank qualified bonds
- Increase in the private activity bond annual state volume caps
- Enhancements to small issue industrial development bonds for small manufacturing companies and first time farmers;
- Private activity bond financing for electric vehicle charging stations; and
- Exempt private activity water and sewer bonds from requiring volume cap allocation; and
- Raise the national volume cap for private activity highway bonds.

We are monitoring developments on HR 2 closely and we will keep you apprised of any developments.

## **Bond Dealers of America**

July 1, 2020

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### **Fear Revives Muni-Bond Insurance Business From Decade-Long Slump.**

- **Since Early May about 10% of new bonds sold with insurance**
- **Insurance seen as hedge against feared rating downgrades**

As the coronavirus pandemic rips through the finances of state and local governments, municipal-bond insurers are busier than they've been in years.

Since early May, about 10% of new bond sales have been offered with insurance, nearly double the average since 2012, according to data compiled by Bloomberg. The last time the market saw back-to-back-months of double digit insurance rates was in July and August of 2009.

State and local government bonds sold with insurance was once a mainstay in the \$3.9 trillion market. But the industry nearly collapsed in the financial crisis, when the companies had their credit ratings slashed because of losses tied to toxic mortgage securities, leaving only about 5% of new sales carrying insurance since then.

"Covid-19 has had tectonic shifts in the market psychology and fear of further credit deterioration," said Grant Dewey, head of municipal capital markets at Build America Mutual, a municipal bond insurer.

He said that his group has been seeing higher demand from larger issuers and higher quality names as investors seek to hedge against feared rating downgrades. BAM has seen an increase in borrowers looking to insure their new debt issues and "record" volume from investment firms looking to guarantee the bonds they've already purchased.

Bond insurance allows an issuer to borrow at lower rates than their credit ratings might allow by giving assurance to investors that they get paid no matter what. The insurer guarantees repayment of principal and interest over the life of the debt in return for a one-time premium.

Jamie Doffermyre, municipal sales manager at Citigroup Inc., said that investors have been placing more value on insurance over the last couple of years and the shift has "accelerated" during the coronavirus pandemic.

“Insurance has performed well over the last few years and people are realizing that the absolute rating on the bond will be more stable if its wrapped and it will keep the spread more intact if there is a credit event,” Doffermeyre said. “More customers are willing to place value on wraps that haven’t before.”

The insurers’ rising market share has come amid a steady increase in the volume of new bonds being offered, suggesting demand is both “real and distributed,” wrote Matt Fabian and Lisa Washburn of Municipal Market Analytics in a note to clients. MMA says that any new issue penetration above 6% represents a “material change” in investor behavior.

When Inglewood, California sold \$102 million of taxable pension bonds in early June, it bought insurance from Assured Guaranty Ltd. to offset some of the market’s uncertainty, said Bill Reynolds, a director at Urban Futures Inc., the financial adviser on the sale.

“People want a little bit of security that the deal won’t fall flat on its face when it sells,” he said. “The market is just so weird right now.”

The municipal market sold off in March when fears about the economic impacts of the coronavirus pandemic threw financial markets into chaos. News sales of bonds largely froze up after investors pulled record amounts out of mutual funds. The market rebounded after the Federal Reserve stepped in to support the market through various liquidity programs.

Dewey, the manager at Build America Mutual, said business inquiries “exploded” in March, April and May and the company was fielding requests from investors looking to insure bonds already in their portfolio when the market seized up.

“For investors it’s not necessarily about a fear of default but more of a fear of downgrades,” Dewey said.

Moody’s Investors Service has most of corners of the municipal market on a negative outlook, signaling the finances for airports, colleges and universities, toll roads plus states and local governments face upcoming headwinds because of the economic fallout of the pandemic.

“Because of the market uncertainty, no one wants to get stuck issuing bonds and then the market collapses” Reynolds, the financial adviser said.

## **Bloomberg Markets**

By Danielle Moran

June 25, 2020, 10:30 AM PDT

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## **[The Moving Forward Act’s Public Finance Provisions: Butler Snow](#)**

On June 22, 2020, members of the United States House of Representatives Committee on Transportation & Infrastructure released the details and full text of the [Moving Forward Act \(H.R. 2\)](#). The Moving Forward Act is proposed legislation that represents more than \$1.5 trillion of infrastructure investment and includes significant provisions affecting the public finance industry, including:

- Authorization of Qualified Infrastructure Bonds;
- Restoration of Tax-Exempt Advance Refunding Bonds;
- Increases to Annual State Volume Cap on Private Activity Bonds;
- Modification of Qualified Small Issue Bonds, Agricultural Bonds, and Exempt Facility Bonds;
- Restoration of Qualified Zone Academy Bonds and Authorization of Qualified School Infrastructure Bonds

This post summarizes the public finance provisions contained in the Moving Forward Act as released on June 22, 2020.

## **Qualified Infrastructure Bonds (“QIBs”)**

The Moving Forward Act authorizes QIBs, a new type of bond modeled after Build America Bonds that may be issued within thirty (30) days of being enacted.

Issuers of QIBs receive a tax credit equal to an applicable percentage of the interest the Issuer pays on the QIBs. The applicable percentage of the QIBs interest subsidy is phased as follows:

- 2020 through 2024 – 42%
- 2025 – 38%
- 2026 – 34%
- 2027 and thereafter – 30%

State and local governments may claim the above credit for QIBs whose interest would otherwise be eligible for tax-exempt status in the Internal Revenue Code of 1986, as amended (the “Code”), and the entirety of whose net proceeds are used for capital expenditures or the operation and maintenance of capital expenditures. If the credit is subject to sequestration, the credit amount will be grossed up to equal the applicable percentage of the interest payments.

## **Restoration of Tax-Exempt Advance Refunding Bonds**

Tax-Exempt Advanced Refunding Bonds allow states, local governments, nonprofit organizations, and other eligible entities to refinance their existing tax-exempt debt at the lowest possible costs.

When interest rates drop, state and local governments often seek to refinance their outstanding debt. In some cases, previously-issued bonds have “call protections” that prevent the debt from being paid off immediately. Tax-Exempt Advanced Refunding Bonds allow issuers to enjoy interest savings by issuing new bonds on a tax-exempt basis that are placed in escrow until the prior bonds’ call protections expire.

Prior to 2017, Tax-Exempt Advanced Refunding Bonds were allowed under the Code and eligible issuers saved billions of dollars in financing costs using this financing tool. The Moving Forward Act would restore Tax-Exempt Advanced Refunding Bonds within thirty (30) days of being enacted.

## **Increases to Annual State Volume Cap on Private Activity Bonds**

Private Activity Bonds are issued on a tax-exempt basis under Subpart A of the Code by certain non-governmental entities (including but not limited to nonprofit corporations) and for specific purposes described in the Code). Annually, each state is allotted a population-based allocation of volume cap for the issuance of Private Activity Bonds in that respective state under Section 146 of the Code.

The Moving Forward Act revises Section 146 of the Code to increase the annual state volume cap on Private Activity Bonds from the greater of \$75 per capita or \$225,000,000 to the greater of \$135 per

capita or \$402,220,000.

## **Modification of Qualified Small Issuer Bonds, Agricultural Bonds, and Exempt Facility Bonds**

### *Qualified Small Issuer Bonds*

Present law allows for a deduction of tax-exempt interest received by holders (including financial institutions) of certain tax-exempt obligations issued by qualified small issuers, defined (in part) as issuers that are not reasonably expected to issue more than \$10 million in tax-exempt obligations during a calendar year.

The Moving Forward Act increases the \$10 million limit to \$30 million and indexes the limit to be revised annually for inflation. In addition, qualified 501(c)(3) bonds as tax-exempt obligations for purposes of the small issuer exception, and makes permanent certain rules related to qualified financings.

### *Agricultural Bonds*

The Moving Forward Act increases the limitation on the exemption of the use of private activity bond proceeds for first-time farmers from \$450,000 to \$552,500, indexed annually for inflation.

### *Exempt Facility Bonds*

Exempt Facility Bonds are issued under Section 142 of the Code where ninety-five percent (95%) or more of the net proceeds are used for certain eligible uses (such as airports, qualified residential rental facilities, and several others).

The Moving Forward Act makes two primary changes related to Exempt Facility Bonds:

- First, a new category of eligible use is added for zero-emission vehicle infrastructure, which is defined as any depreciable property (not including a building and its structural components) used to charge or fuel zero-emissions vehicles.
- Second, Section 146 of the Code is revised so that wastewater infrastructure is no longer be subject to state volume cap limits.

## **Restoration of Qualified Zone Academy Bonds and Authorization of Qualified School Infrastructure Bonds**

### *Restoration of Qualified Zone Academy Bonds ("QZABs")*

QZABs are a type of tax credit bond that were authorized under Sections 54A, 54E, and 6431 of the Code. Prior to repeal in 2017, QZABs were allowed to be issued by state and local governments within a qualified zone academy to rehabilitate or repair public school facilities; to provide equipment for use; to develop course materials; and to train teachers and other school personnel. QZABs were not allowed for new construction. QZABs were subject to volume cap allocations and required that the issuer must have received written commitments from private entities having a present value of not less than 10% of the proceeds of the bonds.

The Moving Forward Act proposes to restore the QZABs program and make several changes to the QZABs program that would:

- Allow proceeds from QZABs to be used for construction and retrofitting of public school facilities;
- Permanently increase the national limitation for QZABs from \$400 million annually to \$1.4 billion annually; and
- Remove the 10% private business contribution requirement for local educational agencies to participate in the QZAB program.

## **Authorization of Qualified School Infrastructure Bonds (“QSIBs”)**

The Moving Forward Act would authorize the issuance of \$30 billion of QSIBs over three years (\$10 billion in fiscal years 2020, 2021, and 2022). QSIBs would provide a 100% tax credit on the interest of any QSIB, which may be issued as a tax credit to the bondholder or a direct payment to the bond issuer. QSIB allocation would be based on Title I education formulas in each state. Additionally, states would be allowed to distribute up to ten percent (10%) of their total QSIB allocation to expand broadband access through existing public programs or public-private partnerships.

## **Other Development Finance Provisions in the Moving Forward Act**

The Moving Forward Act contains several other important development finance provisions, including:

- Permanently extending and expanding New Market Tax Credits (please see [this post](#) by Butler Snow attorneys Jet Hollingsworth and Sam Noblin for additional details);
- Temporarily increasing Historic Tax Credits to 30% from 2020 to 2024;
- Establishing a permanent minimum 4% Low Income Housing Tax Credit (“LIHTC”) and increasing the annual 9% LIHTC allocation amount;
- Creating a Neighborhood Investment Tax Credit to rehabilitate vacant homes and build new affordable housing;
- Delaying the phasedown of the Production Tax Credit and Investment Tax Credit; and
- Appropriating billions of dollars for broadband, water, hospitals, housing, childcare, and other projects.

## **Next Steps and Other Materials**

- The Moving Forward Act is expected to be brought to a formal committee vote next week.
- The full text of the Moving Forward Act can be found [here](#).
- A section by section summary of the Moving Forward Act can be found [here](#).
- A summary released by the United States House of Representatives Committee on Transportation & Infrastructure can be found [here](#).

June 25, 2020

**Butler Snow LLP**

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## **[House Introduces Major Infrastructure Legislation: H.R. 2, the Moving Forward Act](#)**

On June 22, 2020, the House introduced H.R. 2, the Moving Forward Act. The 2,300-page infrastructure legislation contains many important provisions that the development finance industry should be aware of. CDFA led the charge to ensure bond finance provisions were included by delivering numerous critical messages to Congress on behalf of hundreds of development finance stakeholders.

- [Read the Section-by-Section Summary of H.R. 2](#)
- [Read the Full Text of H.R. 2](#)
- [View H.R. 2 on Congress.gov](#)



## Details:

- Modifications to Qualified Small Issue Industrial Development Bonds & Agricultural Bonds (CDFA's top legislative priority!)
- Creates Qualified Infrastructure Bonds (modeled after Build America Bonds)
- Reinstates Advance Refunding Bonds
- Restores Tax Credit Bonds (Qualified Zone Academy Bonds and Qualified School Infrastructure Bonds)
- Permanently authorizes the New Markets Tax Credit program with additional funding
- Temporarily increases the Historic Tax Credit to 30% from 2020 to 2024
- Establishes a permanent minimum 4% rate for LIHTC, increases annual 9% LIHTC allocation amount
- Creates a Neighborhood Investment Tax Credit to rehab vacant homes and build new affordable housing
- Delays the phasedown of the Production Tax Credit (PTC) through 2025 and Investment Tax Credit (ITC) through 2026
- Creates a 30% tax credit for government-owned broadband systems

[Click here](#) to learn more.

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## Qualified Infrastructure Bonds Are the New BABs.

House Democrats released further details Monday of the \$1.5 trillion infrastructure plan they will bring to a vote next week that is filled with a cornucopia of provisions using the municipal bond market for financing.

Highlights of the package include a new series of taxable direct-pay bonds that would start with a federal 42% subsidy for interest expenses.

The new Qualified Infrastructure Bonds, which are modeled after Build America Bonds, would have their direct-pay subsidies phase lower to 38% in 2025, 34% in 2027, and 30% permanently thereafter.

The legislation also would restore tax-exempt advance refunding 30 days following enactment into law and authorize the issuance of \$30 billion in qualified school infrastructure bonds (QSIBs) over three years.

The QSIB allocation of \$10 billion per year over three years would be based on the Title 1 education formula for each state. All interest costs for the QSIBs would be reimbursed by the federal government.

In addition, state volume caps for the issuance of tax-exempt private activity bonds would be raised 80% nationwide to \$135 per capita from the current \$75 per capita, providing relief for states such as California, Massachusetts, and New York which have been reaching their limit because of their heavy usage for multifamily housing projects.

Small states also would get a higher annual PABs ceiling of \$402.22 million, up from the current \$225 million.

The package was put together by Democrats and does not have any significant Republican support.

The bond provisions which originated in the House Ways and Means Committee chaired by Rep. Richard Neal, D-Mass., do have bipartisan support on his panel although they have not been brought to a formal committee vote.

The larger \$1.5 trillion package, if passed by the Democratic-controlled House, would become a negotiating document for eventual talks with the Republican-controlled Senate and the Trump administration.

"We're going to encourage our Republican friends in the House to support this," said Michael Nicholas, CEO of the Bond Dealers of America. "It doesn't correspond directly with the Senate highway bill, but that's something we are supporting as well."

That sentiment was echoed by Emily Brock, director of the federal liaison center for the Government Finance Officers Association, and Charles Samuels of Mintz Levin, counsel to the National Association of Health & Educational Facilities Finance Authorities.

Samuels' organization, which includes smaller nonprofit hospitals and colleges, is particularly pleased that the legislation includes an increase to \$30 million from \$10 million the amount of tax-exempt bonds banks can buy under favorable terms as bank-qualified.

Bank qualified debt, also known as BQ debt and bank eligible, allows the bank to deduct the carrying cost of that debt as a business cost.

The current limit of \$10 million has been in place since 1986, except for a two-year period in 2009-2010 when the American Recovery and Reinvestment Act raised it to \$30 million. ARRA also applied the limitation to individual borrowers rather than conduit issuers, which the law snapped back to afterward.

"There isn't anything particularly partisan in any of these bond provisions," said Samuels. "There are Republicans who individually will support all or most of these bond provisions. Hopefully, the process will allow them to indicate that support."

Samuels said the House bill "reflects our priorities" and is cause for excitement. "At the state and local government level, it is totally bipartisan and nonpartisan," he said.

Brock described the legislation as "a significant step in the right direction."

"We've asked for many of these proposals many times over the last several years and we have it now," she said.

Brock couldn't predict how House Republicans who support the municipal bond provisions will vote on the overall infrastructure package.

"I think we need to understand the politics of the issue here," Brock said. There are a lot of other issues outside our wheelhouse that are in this bill, that in some cases make it a partisan proposal."

As far as the key issue of funding the Highway Trust Fund going forward, the legislation extends trust fund taxes that expire in September 2022 for another five years.

However, the expected funding shortfall of \$106.7 billion in the Highway Account and \$38.6 billion in the Mass Transit Account are covered with deficit spending from the general fund.

The package also contains numerous green energy provisions that have received pushback from

numerous Republicans.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 06/22/20 03:00 PM EDT

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## **HR2: U.S. House Infrastructure Tax Bill.**

Including long sought provisions by BDA and BDA members, the Democratic House leaders this morning released their full transportation infrastructure bill. The House bill [HR2](#), includes the following provisions:

**Restoration of direct pay bonds:** The bill proposes a new category of “Qualified Infrastructure Bond.” QIBs would be taxable bonds similar to Build America Bonds where a cash credit accrues to the issuer for a portion of the interest expense. The reimbursement percentages for issuers are proposed to be (by year of issuance):

- 2020 through 2024: 42%
- 2025: 38%
- 2026: 34%
- 2027 and thereafter: 30%

The bill defines Qualified Infrastructure Bond as “100 percent of the available project proceeds of such issue are to be used for capital expenditures or operations and maintenance expenditures in connection with property the acquisition, construction, or improvement of which would be a capital expenditure.” The bond must also qualify for tax exemption and meet arbitrage issue price requirements. Current refundings of QIBs would be permitted. Importantly, the proposal includes a provision effectively exempting QIB subsidy payments from budget sequestration.

\*The Senate is considering highway legislation on a separate track. The Senate bill thus far is significantly smaller than the House version and does not include the bond provisions from the House bill.

**Advance Refundings:** The bill would effectively restore the statutory language that governed advance refundings before the enactment of the 2017 tax bill. That means each tax-exempt governmental bond would be eligible for a single advance refunding. The proposal would require that issuers demonstrate a present value debt service savings in order for issues to qualify for an advance refunding.

**Bank qualified bonds:** The bill would raise the annual issuance limit for bank qualified bonds from \$10 million to \$30 million, index that limit annually for inflation and, for 501(c)3 borrowers, apply the \$30 million test at the level of the borrower.

**Private activity bonds:** The bill would raise the per state annual private activity bond volume cap from the greater of \$75 per capita or \$225 million to \$135 per capita or \$402 million and index both those figures for inflation going forward. PABs for water and sewer facilities would be exempt from the cap.

**Small issue bonds:** The bill would amend certain governing provisions for small issue manufacturing and first time farmer bonds according to the terms of HR 5422, the Modernizing

Agricultural and Manufacturing Bonds Act.

Exempt facility bonds for recharging stations: The bill would create a new category of private activity bonds which could be issued to finance electric vehicle recharging stations.

**Highway volume cap:** The bill would raise the national volume cap for private activity highway bonds from \$15 billion to \$18.75 billion.

**Restoration of targeted tax credit bond programs:** The bill would restore authority to issue Qualified Zone Academy Bonds and certain other targeted tax credit bonds eliminated in the 2017 tax bill.

**Establish School Infrastructure Bonds:** The bill would authorize a new category of School Infrastructure Bonds (SIBs) where the proceeds are used for capital construction and repair of public school facilities as described in the bill. SIBs would be taxable bonds where the issuer receives a 100% reimbursement for interest costs. The bill would authorize \$10 billion of SIB issuance per year for three years. Allocations would be on a formula basis.

The House Rules Committee has announced that they are accepting possible amendments to H.R. 2 before the bill goes to the House floor. House leadership has said they want to complete House action on the bill before the July 4 recess.

## **Bond Dealers of America**

June 22, 2020

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## **[Invest in Public and Private Infrastructure Right Now.](#)**

(Bloomberg Opinion) — As part of their plans to support economic recovery from the Covid-19 crisis, both the White House and congressional Democrats are working on major infrastructure packages. This makes good sense, even though infrastructure programs used as stimulus have an uneven history, because at the moment interest rates are near rock bottom. To get the most bang for the buck, however, policymakers should support private as well as public infrastructure.

Shovel-ready projects are an economist's textbook example of effective stimulus. John Maynard Keynes once quipped that the UK could stimulate its way out of the Great Depression by burying bottles of cash in abandoned mineshafts, so that private businesses would pay workers to dig them up again.

Keynes was mocking the fundamental uselessness of gold mining, and suggesting that the government find more productive ways to jump-start the economy. In the real world, however, projects aren't so easy to arrange. Upgrades to public infrastructure can take years to get through the planning process, and useful shovel-ready projects are few and far between.

Nonetheless, a combined public and private push makes economic sense for several reasons. First, those long-term interest rates make public infrastructure a bargain. The government can borrow money for 30 years at a negative real rate of interest. In other words, after accounting for inflation, the Treasury will pay back bondholders less than the amount it borrowed.

Second, it will take years after the pandemic ends to bring the unemployment rate back down to

where it was early this year. That means there will be plenty of otherwise idle workers for public projects even if they don't get off the ground until 2022.

Private infrastructure projects, for their part, can boost employment in the short term and, at the same time, help make companies more resilient to Covid-19.

For example, evidence suggests that poor ventilation may increase the spread of the virus. Yet most buildings don't meet minimum standards. Also, many companies report that having employees work from home has gone far better than expected, because video conferencing has turned out to be more convenient than in-person meeting. However, many at-home workers could stand to have much improved internet connectivity.

Such changes call for large investments. But the private sector, unlike the federal government, faces increasing constraints on how much it's able to borrow. Congress could help by using its own borrowing capacity to give private investors the extra liquidity they need.

The Coronavirus Aid, Relief, and Economic Security Act moved in this direction by raising the limit on certain corporate and investor tax deductions. It allows those not claimed in one year to be claimed in future years.

At the time the CARES Act was passed, opponents decried this as a giveaway to the rich, and Democrats promised to reverse it in later legislation. But the change is better thought of as a low-interest business loan. With the cap in place, those same deductions would have been spread out over more years or taken against future income from the rent or sale of property. Lifting the cap simply allows investors to take the deductions sooner.

This increases liquidity and at no cost to taxpayers, because government borrowing costs are so low. Indeed, Congress should go further by allowing investors in real estate and other long-lived assets to cash-out the tax value of any remaining deductions they are carrying on their books for 90 cents on the dollar.

The timing is right for both the public and private sectors to invest in the future of America. The government can inexpensively provide all the funds — creating jobs today and laying the foundation for a more prosperous tomorrow.

## **Bloomberg Opinion**

Karl W. Smith

Bloomberg June 25, 2020

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.

*Karl W. Smith, a former assistant professor of economics at the University of North Carolina and founder of the blog Modeled Behavior, is vice president for federal policy at the Tax Foundation.*

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## **What Should The Public Sector Prioritize Post-Crisis?**

For senior managers, professional capacity over the past three months has undoubtedly been

reoriented to respond to the Covid-19 pandemic. Understandably, this blunt shift to crisis-related work put many organizational plans, projects, and priorities for 2020 on hold. But as restrictions lift globally, the third and fourth quarters of 2020 look to be much more 'normal' than what we've experienced recently. Organizational plans and priorities for the remainder of 2020 will need to be selected strategically in the coming weeks and months to ensure value for money.

Government restrictions on business, travel, and movement have resulted in unprecedented declines in business activity. Globally, organizations have halted recruitment, postponed investments in projects, furloughed or laid-off employees, shifted to widespread remote working, and managed drastic shocks to supply and demand. Of course for the majority of businesses, increased volatility means greater exposure to risks. But it's not just the private sector navigating these pressures - it's the public sector too.

While it may not be true for each and every pre-pandemic priority, many organizational goals will re-emerge as our economies recover. With limited resources and lower risk appetites, public sector organizations should put any available funds toward projects that will stimulate long-term growth, efficiency, and stability. At CIPFA, we see projects focused on infrastructure, sustainable development, and audit as financial policy imperatives.

Infrastructure can be critical for attracting private investment in a particular region or city, and makes it easier to conduct business and deliver services. In the public sector, infrastructure projects can take the form of urban regeneration projects, housing or public facilities, new transport links, and low-carbon energy networks, to mention a few. These projects are critical because they help create an environment where economic and social activity can flourish. Although new infrastructure can be costly, the cost of finance today is extremely low, which in turn will result in better value for money for public organizations.

Despite the organizational will, public finance professionals know all too well it can be difficult to balance economic growth and the sustainability agenda. In the U.K. alone, over half of all local councils have declared a climate emergency - the same is true for many U.S. cities. While some programs have been paused due to the ongoing pandemic, climate change is still the world's biggest threat. The UN's Sustainable Development Goals (SDGs) are intended to serve as the primary blueprint for governments, addressing a range of social and economic issues, and we've seen some English councils set targets beyond the 2030 targets set by the UN. Prioritizing SDG-related projects in the second half of 2020 is more important than ever, and should be viewed as an investment - preventative spend that contributes to an efficient, secure, and stable future for our communities. Put frankly, until the conventional, one-dimensional approach to understanding investment returns is re-evaluated, sustainability projects will continue to occupy the back seat.

The second quarter of 2020 also saw unprecedented amounts of public money released from governments at breakneck pace. Stimulus funding for labor markets, personal protective equipment (PPE), business loans, and much more was made available by central governments, with many diligence checks and audit controls conducted on a post-transaction basis. The UK government is already concerned about the state of audit and governance in the local public sector, as made evident by the launch of the Redmond Review in 2019.

The realities of the coronavirus response only complicate the current audit landscape. Given the complexities of auditing pandemic-related spending, particular attention and resources must be allocated to audit and the governance functions of government. This is a key public finance issue in the U.K., and one that is surely shared with governments around the world.

As the number Covid-19 cases wane and some sense of normality begins to return to our daily lives,

projects and initiatives that fell by the wayside will become priorities once again. While public finance professionals cannot predict the future, we can ensure that financial resources are put to work in ways that are designed to minimize any further shocks that come our way.

## **Forbes**

by Rob Whiteman

Jun 25, 2020

*Rob Whiteman is the Chief Executive of the Chartered Institute of Public Finance and Accountancy.*

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### **N.Y. Paying JPMorgan More Than Others Shows Loan-Market Pitfalls.**

- **New York paid 2.05% rate on short-term note sale last month**
- **Hawaii, Rhode Island and Massachusetts borrowed for less**

With tax revenue plummeting by \$8 billion in April, New York needed cash, quickly.

At the end of May, the state needed to pay \$4 billion to school districts and \$1.8 billion to Medicaid. Borrowing money in a public offering didn't seem like a good option, with record volatility having shut down much of the market as investors yanked out their cash. So the state at the epicenter of the coronavirus pandemic borrowed \$1 billion directly from JPMorgan Chase & Co., the country's biggest bank.

It came at a price. The 2.05% tax-exempt interest rate JPMorgan charged New York for the seven-month loan was more than what three other states with similar — or lower — credit ratings paid to borrow from rival banks to cover temporary cash shortfalls.

In April, Bank of America Corp. purchased \$600 million of Hawaii's taxable notes maturing in 12 and 18 months for yields of 1.46% and 1.76%, respectively, the equivalent of 1.15% and 1.39% if the securities were tax-free like New York's.

In March and April, Rhode Island arranged \$300 million in credit agreements with Bank of America and Santander Bank at floating-tax exempt rates that haven't exceeded 1.65%. And last month, Massachusetts secured a \$1.75 billion credit line with a syndicate of lenders led by Bank of America at a minimum taxable rate of 2.25%, or 1.78% on a tax-exempt basis, according to a spokesman for Massachusetts Treasurer Deborah Goldberg.

Still, New York, which has a AA+ credit rating, was able to get lower borrowing costs than its neighbor, New Jersey, which at A- has the second-lowest rating among US states. It is paying 4% on \$1.5 billion of notes purchased by Bank of America and The Vanguard Group that mature in September.

The outcomes illustrate the divergent pricing in the business of extending direct loans to states and cities, which boomed as governments raced to raise cash just as the economic havoc caused by the coronavirus was rattling the public bond markets.

Short-rates surged in wake of shutdowns amid cash crisis

Had New York borrowed at Hawaii's tax-exempt equivalent rates of 1.15% and 1.39%, it would have saved \$6.6 million to \$9 million, enough to pay the annual salaries of 78 to 107 teachers, based on

New York's average teachers' salary of \$84,230. New York would have saved \$2.7 million borrowing at the same rate as Massachusetts.

JPMorgan provided the best terms to the Dormitory Authority of the State of New York, which issued the \$1 billion notes and solicited bids from nine banks in the agency's underwriting syndicate, said Jeffrey Gordon, a spokesman for the agency.

Gordon didn't provide the terms offered by the other banks. He said it was misleading to compare other states to New York, which received a competitive rate given the size of the deal and market conditions, and that the state is eligible to be reimbursed for the interest under federal stimulus legislation.

"New York State was the epicenter of the coronavirus pandemic, with more deaths and cases than any other state, and it is terribly misleading to compare New York's much larger transaction in May to smaller borrowings done in March and April by states that were not similarly situated," Gordon said in a email.

Jessica Francisco, a JPMorgan spokeswoman, declined to comment.

New York is among cash-strapped governments, hospitals and universities that turned directly to banks to cover temporary cash shortfalls and boost liquidity in the months after states shuttered non-essential businesses to contain the pandemic. In mid-March, yields on municipal bonds maturing in one year skyrocketed to 2.8%, only to then tumble back toward zero as the Federal Reserve's emergency lending program restored investors' confidence.

The number of municipal securities filings that report new financial obligations — a category that includes bank loans — has increased dramatically this year to 471 in May, according to Municipal Securities Rulemaking Board data, more than twice what it was in February.

New York needed the money primarily because of a revenue shortfall driven by a three-month delay in the income-tax filing deadline to July 15. New York state's tax revenue plummeted 68.4% in April and 19.7% in May from the prior year — or \$8.7 billion — as the coronavirus lockdowns and the filing extension took a toll on state coffers.

To bridge the gap, New York lawmakers authorized \$11 billion in new state borrowing for the fiscal year that began April 1, consisting of as much as \$8 billion in tax-backed revenue or bond anticipation notes and \$3 billion in credit lines or revolving loans.

In a sign of how much the municipal market has healed since March and April, earlier this month, New York's Dormitory Authority issued \$3.4 billion notes maturing in nine months in a public offering at an interest rate of 0.55%.

## **Bloomberg Markets**

By Martin Z Braun

June 23, 2020, 10:30 AM PDT

— *With assistance by Fola Akinnibi*

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## **Letting States Declare Bankruptcy: Debunking the Bond Argument**

I've drawn on David Skeel's work before in [writing about](#) giving states the option of declaring bankruptcy. He [makes the case](#) for the idea in the new *National Affairs*. Here he responds to a common objection from the right:

Republican concerns that state bankruptcy would cripple the bond markets are similarly unfounded. Ironically, this objection is often made by market enthusiasts, yet it is based on an implicit assumption that markets don't work well. If bond markets were unable to distinguish between financially sound states and states that are at risk of default, perhaps all bonds would plummet if a state-bankruptcy option were enacted. But this is contrary to everything we know about the market for state and municipal bonds (known as the "municipal-bond market," even though it includes state debt as well). Although the market for state debt is far from perfectly efficient, it does distinguish between good and bad risks. When Utah recently issued bonds, for instance, the bonds had an interest rate 0.40% above the five-year Treasury bond rate. For Illinois, which issued bonds the same week, the difference was 5.25%.

If the enactment of a state-bankruptcy option had any negative effect on bond prices, that effect would stem from the decreased likelihood of states receiving a federal bailout, since the bankruptcy option would exist as an alternative. This effect should be applauded. As work by scholars such as Stanford University's Jonathan Rodden has shown, the expectation of receiving a federal bailout gives states a powerful incentive to overspend. A state-bankruptcy option would send the opposite signal.

He concludes that legislation to aid the states for pandemic-related costs should include a bankruptcy option. It's hard to see a Democratic House agreeing, notwithstanding Skeel's solid arguments.

NATIONAL REVIEW

By RAMESH PONNURU

June 23, 2020 2:11 PM

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## **A Looming Fiscal Crisis Raises Another Fear for US Cities: State Oversight and Financial Control Boards**

It's a tough time to be a mayor in America. Tax revenues have fallen off a cliff. Public sector layoffs have begun - a staggering 1.5 million jobs lost already - and there is no end in sight. The Upjohn Institute estimates that by the end of 2021, state and local governments will face a \$1 trillion shortfall.

To make matters worse, it is unclear if the federal government will do enough, or anything at all, to aid state or local governments.

"This is an unprecedented crisis and it could get quite ugly," says Bruce Katz, co-founder and director of the Nowak Metro Finance Lab. "We stopped the economy. You don't need to be a rocket

scientist to figure out that even well managed cities and counties are being affected.”

[Continue reading.](#)

## **CityMetric**

By Jake Blumgart

June 23, 2020

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### **Virus Fallout Forces U.S. Cities to Cut Budgets, Projects - Survey.**

CHICAGO, June 23 (Reuters) – U.S. cities are laying off workers, shelving infrastructure projects and delaying or canceling equipment purchases as the economic fallout from the coronavirus outbreak ravages their budgets and federal funds remain elusive, a survey released on Tuesday showed.

With cities facing a projected \$360 billion revenue loss over the next three years, the National League of Cities’ survey of more than 1,100 municipalities found that 74% have started to cut their budgets, with 20% reporting across-the-board reductions.

“American cities, towns and villages are facing a double whammy,” Matt Zone, a Cleveland City Council member, told reporters in a conference call. “We have mounting expenses related to the pandemic while tax revenues are declining.”

Nearly two-thirds of the survey respondents said they are delaying or canceling infrastructure projects as well as equipment purchases like police cars and garbage trucks.

“What we need now is certainty, especially given that local economies are what drives the national economy. There’s definitely a ripple effect,” said Joe Buscaino, Los Angeles Council president pro tempore and National League of Cities president.

League officials said nearly 70% of cities have not received any of the \$150 billion earmarked for state and local government virus-related expenses in the federal CARES Act, which only provided direct funding to the nation’s 36 largest municipalities, leaving the rest relying on allocations from their states or counties. The group is pushing for \$500 billion in direct and flexible federal funding for all cities, although the outlook for passage in a divided Congress is unclear.

On the jobs front, 32% of cities are eyeing furloughs or layoffs, while 41% have or will institute a hiring freeze, the survey found.

Local government employment, excluding education, fell by just over 500,000 jobs in April and May, according to the U.S. Labor Department.

(Reporting by Karen Pierog; editing by Jonathan Oatis)

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### **Calls to Defund Police on Collision Course with U.S. City Budget Gaps.**

CHICAGO, June 25 (Reuters) – A movement in the United States to defund local police departments,

sparked by the death of George Floyd in Minneapolis, is colliding with a grim budget reality facing cities.

After weeks of protests over police treatment of minorities, some cities are considering redirecting a portion of the money they spend on police to mental health, housing and other social services that proponents of the defunding movement say will help prevent crime.

Calls to defund the police come as the coronavirus outbreak has wreaked economic havoc on cities across the United States and punched holes in their budgets, with the National League of Cities projecting a three-year revenue loss of \$360 billion. As a result, there is a lot less money to go around for everything.

Floyd died after a Minneapolis police officer knelt on his neck for nearly nine minutes while detaining him on May 25. His death triggered worldwide protests against racism and police brutality.

Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago, said personnel costs make up 70% to 80% of most city budgets and that 60% of that usually is for public safety.

He said unless cities get an influx of federal dollars to replace lost revenue, a move that remains uncertain in the U.S. Congress, budget cuts, even to programs that would benefit from a redirection of police resources, will happen.

"If you don't get some revenue replacement, the flexibility to do any of this is really hampered," Belsky said, noting that "you still need public safety."

Supporters of the defund movement recognize that social services are more likely candidates for cuts during tough budget times than police, which have typically been immune to reductions even during economic downturns, according to Rashawn Ray, David M. Rubenstein Fellow at the Brookings Institution.

"I think they would say ... 'Instead, reallocate funding away from police to the social services that are needed badly,'" he said, adding that police budgets can be shrunk by reducing officer tasks like paperwork and responses to non-emergency calls.

## SPENDING CUTS AHEAD

As revenue drops and expenses spike, local governments and states will have to cut spending by 5% to 7%, which will produce a drag on the U.S. economic recovery, according to a recent Oxford Economics report.

New York City, once the U.S. epicenter of the virus outbreak, is projected to lose at least \$9 billion in revenue. With a June 30 budget deadline looming, there are several proposals to reduce the police operating budget, which totaled \$5.6 billion in fiscal 2020, and redirect the money elsewhere.

In San Francisco, which faces a projected \$1.5 billion shortfall in its upcoming two-year budget, Mayor London Breed announced a plan earlier this month to move money from the police department to support the city's African-American community.

Seattle Mayor Jenny Durkan on Tuesday called for \$69 million in budget cuts for city departments, with the largest earmarked for police at about \$20 million, as part of a plan to plug a budget gap and cover increased virus-related expenses.

Lori Lightfoot, the mayor of Chicago, which is staring down a \$700 million shortfall, has resisted calls for defunding, saying that residents want more police protection.

There were about 468,000 full-time sworn officers in local police departments in 2016, according to U.S. Justice Department data released in October.

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

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## **U.S. Recovery at Risk Without Fed Aid for Cities, Group Says.**

- **Survey found 65% of cities are cutting big-ticket projects**
- **Seven out of 10 cities still haven't received CARES Act funds**

The nation's economic recovery from the coronavirus recession could stall if Congress fails to provide substantial federal aid to local governments, the National League of Cities said Tuesday.

Citing a survey of 1,100 municipalities, the league said 65% have been forced to delay or cancel infrastructure projects and capital expenditures because of the pandemic's toll on local government finances. That could have a ripple effect throughout the already-battered economy by stalling tens of billions of dollars in spending and halting job growth, the league said.

"If Congress does not deliver critical aid to ensure municipalities can support their local economies, keep their residents safe and their essential workers on the job, our national economic recovery has the potential to completely halt," the league said in a statement outlining the survey findings.

States and local governments are facing unprecedented fiscal stress as the pandemic-related shutdowns hammer tax collections and push the U.S. into its worst recession in decades. House Democrats led by Nancy Pelosi passed a \$3 trillion package that devoted about one third of that as direct aid to states and localities. The bill has stalled in the Senate. So far, no direct money has been provided to localities aside from an allocation in the first stimulus package that gave them funds to spend only on virus-related expenses.

"The results of this survey paint a bleak future for America's communities and workers," Joe Buscaino, the league's president and Los Angeles city council president pro tem, said in a call with reporters Tuesday. "These are the kinds of cuts that cities have no choice but to make, and yet will slow the ability for local businesses to get back to work."

The survey found that 61% of cities are delaying or canceling equipment purchases and 24% are making significant cuts to community and economic development programs. A third of cities said they will have to furlough or lay off more municipal workers, adding to the already 1.5 million job losses in the public sector since March. Seven out of 10 cities have not received any funding from the CARES Act, a \$2 trillion rescue package approved in March.

States alone could see \$615 billion in budget shortfalls over the next three years, according to projections made by the Center on Budget and Policy Priorities. Cities are expected to see another \$360 billion in revenue losses through 2022, according to the National League of Cities.

## **Bloomberg Markets**

By Emmy Lucas

## **Fitch: Fed Liquidity Program Benefits Muni but Limited Transportation Participation Expected**

**Fitch Ratings-New York-22 June 2020:** The recently authorized federal lending facility, aimed for eligible municipal issuers in order to bring stabilization as COVID-19, which has unsettled the capital markets, is not likely to find broad participation from transportation revenue enterprises although the coronavirus pandemic has significantly impaired operating volumes and revenues over the past several months, according to Fitch Ratings. Most public transportation authorities are facing financial challenges, but recent Fitch reviews show most entities will have sufficient liquidity and access to capital from other sources to manage funding needs through the year. Consideration to draw on this lending facility may be more beneficial to smaller transportation agencies or those with more exposures to operating deficits, such as transit systems.

The Municipal Liquidity Facility (MLF) was launched in April 2020 under Section 13(3) of the Federal Reserve Act with loans to be originated through a special purpose vehicle (SPV). This lending program can provide an alternative approach to address funding needs for the benefit of states and local governments as well as related revenue bond issuers. This program allows for up to a total of \$500 billion in eligible note purchases through the end of calendar year 2020, with borrower repayment on such loans extending as long as 36 months. The state of Illinois recently completed the first MLF transaction, a \$1.2 billion borrowing to be repaid within one year. The eligibility for revenue bond issuers have been expanded since initiation to include transportation revenue entities including airports.

Fitch does not anticipate a sizable inflow of loan applications from public transportation issuers such as airports, ports and toll roads, particularly those with solid credit characteristics. Still, large agencies with higher credit quality, could find a need for the MLF sourced loan to the extent they have businesses with significant size and near-to medium term operational uncertainty (airports and/or transit). Those agencies having large operating and capital obligations that are difficult, or expensive to modify, may at least consider this liquidity to mitigate against this exposure and potential market disruption risks.

MLF has established pricing terms with linkage to rating levels. Recent market data indicate the MLF set credit spreads would make loan costs materially higher than the more traditional public or private markets for borrowings. Furthermore, limitations to the total number of eligible borrowers set for each state and governor approvals in the selection process could dampen the interest from potential applicants.

Airports have experienced the greatest level of volume reductions from the coronavirus pandemic with passenger declines exceeding 90% during the initial weeks when air travel was interrupted. However, commercial airports as a sector have already received \$10 billion in authorized assistance in the form of grants under the \$2 trillion CARES Act stimulus package. In Fitch's view, these funds, together with existing airport financial resources, should be able defray operating costs and debt service payments for at least one year even if recovery remains tepid in the upcoming months. Ports and toll roads agencies have experienced negative volume and revenue shifts resulting from the pandemic but at a far lesser magnitude compared to airports. While no grant funding assistance has been authorized for these sectors, many of the agencies with debt borrowings have sufficient coverage or liquidity cushions on hand to cover costs for the near term.

With median ratings in the 'A' category, Fitch expects a vast majority of public transportation enterprises across airports, ports and toll roads to weather the coronavirus-caused stresses and anticipate a limited number of rating actions in the near term. A combination of robust coverage cushion and ample levels of cash reserves should allow these entities to manage the funding needs. On the other hand, transit systems will have more acute challenges to cover their own operating budgets as fare box receipts typically do not bring enough cash flow on their own to support ongoing costs. Government taxes and other subsidies are common tools to defray costs.

Contact:

Seth Lehman  
Senior Director  
+1 212 908-0755  
Fitch Ratings, Inc.  
33 Whitehall St  
New York, NY 10004

Chad Lewis  
Senior Director  
+1 212 908-0886

Media Relations: Hannah James, New York, Tel: +1 646 582 4947, Email:  
[hannah.james@thefitchgroup.com](mailto:hannah.james@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **[Fitch: U.S Public Power Peer Review Highlights Very Strong Financial Profile](#)**

**Fitch Ratings-New York-26 June 2020:** U.S. public power utilities saw a general continuation of strong financial trends and improving credit quality through 2019, according to Fitch Ratings' 2020 [U.S. Public Power Peer Review](#).

"The latest peer review shows that low ratios of capital investment to depreciation and improving coverage medians again contributed to lower leverage and improving credit quality throughout the public power sector in 2019," said Dennis Pidherny, Managing Director, U.S. Public Finance. "While the figures in this report do not reflect the impact of the coronavirus outbreak and the related economic contraction, they do illustrate the sector's very strong financial profile, which should support performance through this challenging period."

Trends highlighted in the 2020 peer review include:

- Coverage of full obligations improved for wholesale and retail systems across all rating categories, continuing an upward trend;
- The capex-to-depreciation trend for wholesale systems has stabilized, but the ratio remained below 100% for the fourth year in a row at 84%. The median ratio for retail systems has similarly stabilized. However, investment remains solidly ahead of depreciation as evidenced by the 2019 ratio of 134%;
- Cash on hand medians for both retail and wholesale systems rose to the highest levels observed in a decade. This trend and the lower capital investment rates likely reflect the continuance of low demand growth, abundant capacity and the avoidance of generation-related capex;
- Leverage metrics across the entire portfolio of rated credits improved, continuing a trend of

deleveraging that began over a decade ago. Medians for both retail systems and wholesale systems are also at the lowest levels observed in a decade.

Fitch's U.S. Public Power Peer Review is a point-in-time assessment of Fitch-rated public power utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail public power systems, and rural electric cooperatives. It is accompanied by the 2020 Fitch Analytical Comparative Tool (FACT) for Public Power, an interactive tool that provides enhanced trend analysis and peer comparison tables.

The full report, "2020 U.S. Public Power Peer Review," is available at [www.fitchratings.com](http://www.fitchratings.com).

Contact:

Dennis Pidherny  
Managing Director  
+1-212-908-0738  
Fitch Ratings, Inc.  
33 Whitehall Street  
New York, NY 10004

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **Public-Private Partnerships in a Post-Pandemic World.**

While COVID-19 has forced many people and businesses to take a timeout from their everyday activities, the critical infrastructure upon which their existence depends did not get a leave of absence. Water and wastewater utilities, for instance, must be operated, repaired, replaced and upgraded, and that costs money. Even before the pandemic, many cities, counties and water districts were struggling to finance needed utility capital improvements.

Now, with many residents and businesses unable to pay their bills on time (or pay them at all), with governmental revenue sources under extreme pressure, including reduced income taxes, sales taxes and property taxes, and with the prospect of substantial federal or state financial help uncertain, it may be time to reconsider the use of public-private partnerships (P3s).

In this series of articles, we explore P3s and the other water/wastewater infrastructure financing options available to communities. This article provides a bird's eye view. Subsequent pieces will present more detailed analyses.

Usually, the most financially attractive financing is a government-issued grant or low-interest loan. However, because the competition for them is so fierce and government resources are limited—particularly now and for the foreseeable future—they are frequently unavailable or insufficient to cover the entire cost of a project.

Municipal bonds are the primary source of funding for water and wastewater infrastructure undertaken by local governments, but these are complicated transactions and require the public entity to have the legal authority to issue them and the underlying financial strength to induce

people to buy them.

Many larger cities may be able to utilize tax increment financing (TIF) or special assessments as a financial vehicle, which can be a viable alternative under the right circumstances, but these come with their own set of limitations and financial and political risks.

P3s also come with limitations and risks, and they are not the best financing option for all projects or all communities. But frequently, they are.

## **What Is a P3?**

In a nutshell, a P3 is a contract that allows the private and public sectors to combine their resources to help manage and/or finance a community's infrastructure challenges. Because these partnerships are so flexible, they can be individually tailored to a community. In fact, public-private partnerships are at work in many North American communities where they address different needs in a variety of ways.

## **The Advantages of P3s**

- P3s may be used to:
  - Design, construct and upgrade water, wastewater and stormwater facilities; and
  - Operate water and wastewater facilities.
- The financing can take many different forms, including upfront financing (wholly or in part) from the private partner or payments over the project's lifetime from the persons benefitting from the project, including utility user fees or rates.
- The duration of the partnership is also very flexible.
  - Short-term (1- to 5-year) service contracts
  - Medium-term (5- to 20-year) operation and maintenance contracts
  - Long-term (more than 20-year) design-build-finance-operate-maintain arrangements
- Involvement of the private sector (which has substantial capital and technical expertise and fewer political and bureaucratic constraints) often results in a faster construction period and lower life cycle costs.
- Much of the risk is taken on by private entities, insulating government entities.

Of course, each project and each community is different, and all options should be evaluated. It may be that traditional mechanisms work well; or it may be that a hybrid solution is optimal. Future articles will examine specific projects and the applications of P3s to them. But before concluding this article, it is important to dispel several misconceptions about P3s.

## **Common Myths About P3s**

*Myth:* A private company will own your infrastructure.

*Fact:* In a public-private partnership, the public maintains ownership of all assets—and the public authority sets rates. The contract ensures public control (including the setting of rates) and ownership.

*Myth:* A private company will set your rates and control fees. A public-private partnership is not privatization.

*Myth:* A private company only cares about profit and will drive user fees up in order to make a lot of money.



**Fact:** Venture capitalists and Wall Street investors who want to make huge returns on their investments do not invest in P3s. Public-private partnerships are for companies who desire a long-term relationship with a community and a low-risk/lower-return on their investment. Many such companies have devoted their life's work to providing solutions to the world's infrastructure, governmental and environmental problems. In a properly structured P3 contract, private-sector profit does not come at the public's expense. Lower costs and service improvements result from the new arrangement regardless of whether a private-sector company generates a profit. Savings for municipalities frequently range from 10 to 30 percent.

*Myth:* The municipality will be left with a run-down asset.

*Fact:* Service contracts should be written to require that assets are properly maintained and serviced, with financial penalties if they are not. The community will conduct inspections to ensure proper functioning of assets and should participate in maintenance-spending decisions.

### **The Bottom Line**

Although P3s are hardly a magic elixir, they do deserve a place in the community toolbox. By blending public-sector experience and oversight with private-sector resources and technical expertise, a P3 can offer immediate results for constructing and/or managing infrastructure assets.

**Frost Brown Todd LLC** - Stephen P. Samuels and David A. Rogers

June 24 2020

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## **[S&P: Overall Not-For-Profit Health Care Pension Funded Ratios Are Stable -- For Now](#)**

### **Key Takeaways**

- The median funded status of defined benefit plans dipped slightly in fiscal 2019 to 83% from 84%, due to a lower bond rate.
- However, based on historical bond rate volatility, we do not view this as a fundamental deterioration to funding status levels, which remain very high overall.
- There continues to be significant investment market volatility in 2020 owing to the recession and COVID-19. We expect lower funded ratios in fiscal 2020, leading to higher contributions rates from plan sponsors, which could pressure budgets and cause some entities to seek relief through deferral of pension obligations.
- Overall pension costs for the majority of FASB issuers we rate have remained low and very manageable. However, for some GASB issuers, costs remain a credit pressure.
- Management teams have proactively reduced risk in many defined benefit plans by freezing plans, converting them to defined contribution plans, and funding pension buyouts.
- The CARES Act allows for temporary funding holidays for providers with single employer plans, which could result in weaker future funded ratios.

[Continue reading.](#)

25 Jun, 2020

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## **FinMason Launches Accessible Municipal Bond Analytics.**

BOSTON, June 25, 2020 /PRNewswire/ — FinMason, a FinTech firm and investment analytics provider that enables WealthTech platforms to accelerate development and time-to-market, today announced that it has launched the second phase of its fixed income analytics offering - municipal bond analytics - for the retail wealth management and asset management communities.

“Municipal bonds have always been a challenge for analytics providers,” said Saeid Hoseinzade, PhD, Head of Fixed Income at FinMason. “Consuming, cleaning, and analyzing pricing and terms and conditions for a million municipal bonds requires a reliable and powerful infrastructure, which typically comes at a high cost. FinMason’s modern calculation platform enables delivery of accurate and comprehensive daily analytics on the entire muni universe at a reasonable cost.”

FinMason’s municipal bond rollout covers the entire municipal bond universe across all 50 states, DC, and U.S. territories such as Puerto Rico, the U.S Virgin Islands, and Guam. It includes more than 30 analytics, calculated daily, on over a million municipal bonds. Last month, FinMason launched coverage of the entire global government and corporate bond universe. With today’s launch, FinMason is now able to provide sophisticated fixed income analytics on virtually all individual fixed income securities typically found in the retail wealth marketplace - roughly one and a half million individual bonds. The fixed income initiative also extends to producing institutional-grade fixed income analytics on mutual funds, ETFs, UCITS, and SMAs.

“We are positioning ourselves to be the vendor of choice when it comes to fixed income analytics for the retail wealth community, something that is badly needed as investors stretch for yield in this environment,” said Kendrick Wakeman, CEO of FinMason. “We know that relatively few prospects or clients have individual bond positions, so our API solution enables platforms to analyze these bonds only as needed. This allows you to service all prospects and clients affordably.”

This launch closely follows the announcement that RiskPro, a leading provider of risk solutions to the RIA community, has selected FinMason to enhance their sophisticated fixed income risk calculations.

### **ABOUT FINMASON**

FinMason, one of the world’s largest investment analytics engines for financial services platforms, enables WealthTech platforms to accelerate development and time-to-market while retaining control of their user experience. Built with speed, flexibility, and scalability in mind, the financial technology firm calculates and delivers more than 700 analytics on every publicly-traded asset in the world via one simple API. For more information, visit [www.finmason.com](http://www.finmason.com).

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## **Wall Street’s Muni Desks Join in Bond Boom as New Sales Surge.**

- **Debt issuance rebounds to the most since October on low rates**
- **Jump driven heavily by sales of taxable securities, data shows**

Business is booming for Wall Street’s municipal-bond bankers.

With borrowing costs holding near the lowest in more than six decades, debt sales by state and local governments jumped to \$45.4 billion so far this month. That’s the most since October and nearly

triple what it was in March, when fear unleashed by the coronavirus roiled the bond markets.

[Continue reading.](#)

## **Bloomberg Markets**

By Fola Akinnibi

June 26, 2020, 10:00 AM PDT

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### **U.S. Fintech FinMason Unveils Accessible Municipal Bond Analytics.**

[FinMason](#), a U.S.-based fintech and investment analytics provider that enables WealthTech platforms to accelerate development and time-to-market, announced on Thursday it has launched the second phase of its fixed income analytics offering, municipal bond analytics, for the retail wealth management and asset management communities.

FinMason reported that its municipal bond rollout covers the entire municipal bond universe across all 50 states, DC, and U.S. territories such as Puerto Rico, the U.S Virgin Islands, and Guam. The rollout includes more than 30 analytics, calculated daily, on over a million municipal bonds. Last month, FinMason launched coverage of the entire global government and corporate bond universe.

“With today’s launch, FinMason is now able to provide sophisticated fixed income analytics on virtually all individual fixed income securities typically found in the retail wealth marketplace – roughly one and a half million individual bonds.”

Kendrick Wakeman, CEO of FinMason, further commented on the launch by stating:

“We are positioning ourselves to be the vendor of choice when it comes to fixed income analytics for the retail wealth community, something that is badly needed as investors stretch for yield in this environment. We know that relatively few prospects or clients have individual bond positions, so our API solution enables platforms to analyze these bonds only as needed. This allows you to service all prospects and clients affordably.”

FinMason added that the launch closely follows the announcement that RiskPro, a provider of risk solutions to the RIA community, has selected FinMason to enhance its sophisticated fixed income risk calculations.

June 25, 2020 @ 1:26 pm By Samantha Hurst

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### **Guide To Municipal Bond Funds.**

**You’ll get a real return of maybe 1% from a tax-exempt portfolio. Should the middlemen get to keep most of that?**

How hungry people are for a tax dodge—and how eager Wall Street is to satisfy them. So it is that there are 564 tax-exempt mutual funds. How to choose?

This guide will make that job easy for you. Short answer: Scarcely a dozen of these products are worth your time, and they all, by happenstance, happen to come from the same place in Malvern, Pennsylvania.

Munis have their place as a stabilizer in a portfolio, at least for investors in high tax brackets. But they are not going to make anyone rich. The main task in selecting a fund is to find one that has low costs.

[Continue reading.](#)

## Forbes

by William Baldwin

Jun 26, 2020

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### [Taxable Muni Market Has Gained Traction: BI's Kazatsky \(Radio\)](#)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses taxable munis, and muni in the Democrat infrastructure proposals. Hosted by Paul Sweeney and Vonnie Quinn.

[Play Episode](#)

## Bloomberg Markets

June 26, 2020 — 10:45 AM PDT

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### [Municipal Market Update.](#)

**The initial Covid-19 outbreak and subsequent government-imposed lockdowns confronted states, cities, and counties with unprecedented fiscal challenge. Additionally, the ongoing pandemic has weighed heavily on economic activity as investors face the shortest and most severe recession in the post-WWII era. The municipal bond market was not immune. Panic-induced selling drove muni bond prices to historically cheap levels in March. This selloff was commensurate with the increase in outflows by institutional investors. The resulting liquidity-crunch precipitated interest rate increases at an unprecedented pace. Tax-exempt rates decoupled from their Treasury counterparts, dislocating to an extent not seen since the Great Recession.**

With support from the Federal Reserve, the flow of credit has eased over the past quarter, restoring liquidity to many areas of the fixed income market. Although the Federal Reserve has not purchased municipal securities directly as part of their traditional bond purchasing programs, they have established a program called the Municipal Liquidity Facility (MLF). The Municipal Liquidity Facility will offer up to \$500 billion in lending allowing states and municipalities to tap into the facility to

help manage the financial shortfalls caused by the pandemic. The facility will purchase up to \$500 billion of short-term notes directly from U.S. states, the District of Columbia, U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents.

The MLF is designed to operate as a liquidity provider to state and local governments, assisting those unable to obtain adequate funding under the current conditions. This \$500 billion commitment from the Fed has helped return stability to the municipal bond market and conditions have improved since reaching the March low-water mark. Evidence of this return to stability can be shown by investors adding almost \$3 billion to municipal bond funds in May, marking the first month of net inflows since February (Refinitiv Lipper data). However, performance across the muni market remains bifurcated with the highest rated municipals positive year-to-date while lower quality issuers remain below pre-pandemic levels.

AAA-rated municipals have shown a +3.38% year-to-date total return through May. This is due to a combination of low interest rates, muted inflation pressure, and liquidity from the Fed returning to the credit market. This sharp recovery within high quality muni bonds exemplifies the power of public policy. High yield (below investment grade) municipals have been hit particularly hard by recent outflows, with the broad index down 6.35% year-to-date through May.

Although rates have come down from their highs, this market continues to offer an attractive income advantage above AAA-rated municipals and taxable asset classes. As of June 23rd, the high yield municipal index was yielding 4.9% or around 8.3% on a tax equivalent basis. Current yield levels reflect a 190-basis point (1.90%) advantage over high yield corporate notes, which have historically been subject to higher defaults and lower recovery rates. The slower recovery within lower quality issuers is attributed to concerns of potential defaults in the marketplace. This concern may ease as we enter the summer months, driven by recent defensive action from the Fed coupled with optimism around states and cities beginning to re-open. It is also important to remember the Global Financial Crisis in 2009 and 2010 when state governments similarly relied on federal support to weather the storm.

**municipalbonds.com**

by Corey Boller

Jun 26, 2020

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## **[The Search for Reliable Tax-Free Income in Unreliable Economic Times.](#)**

**When I entered the Wall Street scene as a municipal bond broker in May of 1984, most bonds were at stratospheric levels - securing seven-day settlements and 1% yield increases on a single trade date. In late October of that year, however, 30-year treasury bond yields fell to 11.6%, and the average muni rate for 1984 was approximately 10%.**

For the next six months, I encountered a standard rejection from seasoned muni bond investors: "I'm waiting for rates to go back up." This anchoring bias for investors was born from the roller coaster highs of 14.36% yields (October 1981) down to 10.40% (April 1983) and back up to 13.08% (April 1984)<sup>2</sup>. However, the double-digit percentages of a golden era for muni bonds are in the rearview mirror. Wishing will not bring them back, but we likely wouldn't wish for the economic uncertainty that accompanied those rates anyway. After all, we have uncertainty in abundance today.



## Recent Muni Bond Movement

On March 5, 2020 – amidst a global health pandemic and rapid economic shutdown – we saw muni bond yields exceed the treasury yield for the first time since 2016<sup>3</sup>. At the same time, we saw tax bases dry up overnight and governments scramble to find additional ways to cover their obligations. The uncertainty around current and future issues makes it important to consider potential default rates for muni bonds as states are charged with weathering (and finding funding for) the effects of COVID-19<sup>4</sup>. Historically, municipal bonds' default rate has been lower than those of corporate bonds – although that's not always the case<sup>5</sup>. Comparatively, the U.S. Treasury has not defaulted on its note or bond obligations to date.

It's not all bad news for the municipal bond markets with current rates still surpassing those of equivalent maturity treasuries based on the municipal over treasury (M/T) ratio – a general rule of thumb for deciding whether to buy municipal versus taxable bonds. M/T ratio is calculated by dividing the yield of a municipal bond or fund by the yield of an equivalent treasury. If the number is greater than .8, you might be better off with municipal bonds. If not, treasuries might be the way to go. As of June 19, 2020, the M/T ratio was 1.092 – meaning you could expect higher income from AAA muni bonds than from treasuries<sup>6</sup>.

Although fears still linger about continued economic slowdown, the Federal Reserve gave a huge boost to the security and liquidity of the municipal bond markets by agreeing to buy back up to \$500 billion of muni bonds from qualifying cities and counties and expand purchases to include those with maturities inside of one year<sup>4</sup>. Without a definitive date for economic improvement, municipal budgets will continue to face challenges and the price of investments – including municipal bonds – will remain uncertain.

## Historical Trends

When faced with uncharted economic waters, it can be helpful to study how muni bonds fared in the past, such as during the Great Depression. From 1929 to 1937, only 2.7% of all muni bond issuers defaulted on approximately \$2.8 billion in debt. Research suggests that defaults in muni bonds lagged economic failures and mostly in the later years of the Great Depression.

During the technology bubble burst of the early 2000s, rating agencies didn't downgrade credits despite months of recession and consequences that were obvious to many others. It's important to do your homework on muni bonds and remember that – even in seemingly 'safe' sectors – higher credits can still default if political resilience and will-to-pay do not follow through<sup>7</sup>.

### What Bonds to Buy

Every investor's risk tolerance and end goal is different, so there's no one-right answer for bond selection. However, it's important to choose quality bonds – trusting the ratings but also minimizing duration to minimize interest rate risk. Bonds can be volatile – just like equities – so it's critical they be considered as part of a broad, diversified portfolio and a financial plan designed around your unique situation and long-term goals. There are other options to help mitigate investment risk from municipal ETFs, Target Maturity Funds, actively managed mutual funds or separate account managers. However, whether you're making a professional recommendation to clients or an individual investor selecting options, doing your research is key.

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1 <http://www.munibondadvisor.com/market.htm>

2 <https://www.macrotrends.net/2521/30-year-treasury-bond-rate-yield-chart>

3 <https://www.bloomberg.com/news/articles/2020-03-05/muni-bond-yields-jump-over-treasuries-for-first-time-since-2016>

4 <https://www.cnbc.com/2020/04/28/the-3point8-trillion-municipal-bond-market-rocked-by-the-coronavirus-downturn-is-facing-a-key-test.html>

5 <https://www.fidelity.com/learning-center/trading-investing/municipal-bond-market>

6 <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yieldAll>

7 <https://www.fitchratings.com/research/us-public-finance/fitch-takes-various-rating-action-on-us-enhanced-municipal-bonds-tob-10-06-2020>

## **municipalbond.com**

by Wayne Anderman CFP® MBA

*Wayne Anderman CFP® MBA is the founder of Anderman Wealth Partners, based in the Greater Fort Lauderdale Area, and a registered representative of Avantax Investment ServicesSM. Member FINRA, SIPC.*

Jun 26, 2020

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## **[The Public Finance Implications Of COVID-19.](#)**

### **Summary**

- The Fed's expansion of its balance sheet, an understandable response to the crisis, needs to be unwound as the economy improves.
- Not only was the Fed buying up most of the new issuance, but it was buying up treasury securities with a maturity far longer than overnight reserves.
- It is worth noting that maintaining large central bank balance sheets do not guarantee robust growth.

[Continue reading.](#)

### **Seeking Alpha**

by David Beckworth

Jun. 17, 2020

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## **[Century Housing Announces Unique Bond Deal.](#)**

**The transaction will help finance thousands of affordable homes in California.**

Century Housing announced plans to become the first Community Development Financial Institution (CDFI) to go to market with a municipal bond CUSIP (Committee on Uniform Securities Identification Procedures).

Officials involved in the deal expect to issue up to \$100 million in ESG (environmental, social, and governance) municipal bonds to raise money to support their affordable housing efforts. The bonds will be underwritten by sole senior manager Wells Fargo Securities.

Most CDFIs are nonprofit organizations, and they usually utilize corporate CUSIPs, the system that identifies different securities, including bonds. However, in this case, Century Housing decided on a municipal CUSIP, according to Peter Cannava, managing director at Wells Fargo Securities.

"We thought that issuing a muni CUSIP and going through a conduit municipal agency like the California Municipal Finance Authority would provide additional buyers for Century to market their bonds to," says Cannava. "It would also give them some flexibility that they wouldn't be able to get in the corporate market because corporate CUSIPs are somewhat unique as to what type of investors can buy them."

The transaction is also the first CDFI bond deal to be rated by two rating agencies, Fitch Ratings and S&P Global Ratings, with AA and AA-, respectively, according to Cannava.

This step was to provide another set of eyes to look at the deal under their criteria and reaffirm the rating the other agency provided, especially with some of the volatility seen this year as a result of the COVID-19 pandemic. "We feel the second rating would help place Century in the best position from a marketing perspective," Cannava says. "Often in the muni market, a lot of deals come with two ratings so it would be more in line with the municipal marketplace."

Led by president and CEO Ronald M. Griffith, Century Housing focuses on funding affordable housing in California. The CDFI has invested more than \$2 billion in financing and has helped create approximately 45,000 affordable homes throughout the state.

"This offering will accelerate our ability to serve our mission and deliver financing exactly where it is needed most," he says.

The bonds will be federally taxable and state tax-exempt. Century Housing will use the proceeds to provide early-stage financing, including acquisition, bridge, and construction loans, which has become the organization's specialty.

The early financing is critical because most affordable housing is ultimately financed by low-income housing tax credits (LIHTCs), and developers must have site control even before they can apply for the housing credits, says Alan Hoffman, senior vice president and CFO at Century Housing.

As a result, acquisition loans are vital, but they're also in short supply because many depository institutions cannot make these loans, explains Hoffman.

He says he expects the bond transaction to raise at least \$50 million and as much as \$100 million. At the larger end, the financing would help in the construction or preservation of more than 2,000 affordable housing units.

Officials point out that LIHTC properties in the state have strong green and social components. To highlight these features, the transaction has a third-party opinion by Sustainalytics that attests to both the environmental and social benefits that will be created by the housing made possible by the bonds. It's one more move to try to draw buyers to the bonds.



## Affordable Housing Finance

By Donna Kimura

June 19, 2020

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### [Fitch Ratings Rates Century Housing Corp., CA \\$100MM Rev Bonds 'AA'; Stable Outlook](#)

**Fitch Ratings - New York - 17 Jun 2020:** Fitch Ratings has assigned a 'AA' Issuer Default Rating (IDR) with a Stable Rating Outlook to Century Housing Corporation (Century Housing or the CDFI). At the same time, Fitch assigned a 'AA' rating to the California Municipal Finance Authority Taxable Bonds, Series 2020 (Century Housing Corporation) (Sustainability Bonds) with a Stable Rating Outlook.

#### **SECURITY**

The Series 2020 Bonds are general obligations of Century Housing payable from all legally available revenues and assets of Century Housing. The proceeds of the Series 2020 Sustainability Bonds will be used to refinance certain existing obligations that principally financed loans made by Century Housing related to the development of affordable multi-family rental housing. Series 2020 bonds will be issued in an amount of \$50 million up to \$100 million with two-year and three-year tenors with the possibility of 10- to 20-year tenors depending on pricing available at the time of issuance.

#### **KEY RATING DRIVERS**

Century Housing Corporation's rating reflects ongoing and continued demand for multifamily affordable housing within the state of California. In addition, Century Housing Corporation exhibits growing operating revenue and cash flow derived from its lending products, grants and other sources of investment income. Century Housing Corporation's strong management of operations is evidenced by its solid financial performance and its good standing with the federal oversight provided by the Department of Treasury's Community Development Financial Institution (CDFI) Fund, evidenced by its continued certification as a CDFI.

#### **Revenue Defensibility: Stronger**

Since 2014, Century Housing Corporation has shifted its lending operations from a commercial bank reliant Community Development Finance Institution (CDFI) to include a more robust lending operation using bonds which while maintaining their overall total assets well above their total liabilities. Century Housing's demand is evident by the average increase in mortgage loans of 34% since 2015. The increase in Century Housing's asset base is primarily due to affordable housing mortgage loans that the CDFI makes from the predevelopment to permanent phase financing of multifamily affordable housing. Century Housing operates in the State of California where there is a significant shortage in affordable housing units. When assessing the history of Century Housing Corporation over a span from 2006-2019, the CDFI's overall financial position changed positively to meet the demand of the affordable housing gap within the state. In the event of a future downturn in the national economy and the state's economic position, the demand for Century Housing's loan products become stronger.

#### **Operating Risk: Stronger**

Fitch's analysis considers the entity's operating profile, including predictability and volatility of costs, life-cycle/capital renewal risks, key resource cost risks and the ability to manage growth in costs over time. Century Housing Corporation's strong operating risk profile is evidenced by its overall positive financial performance, the high quality of its assets, with limited delinquencies and predictability in its interest income from loans. In addition, the overall demand for its products contributes to the growing income statement of the CDFI. Century Housing exhibits sophisticated and prudent risk management as it relates to their overall lending activity and liabilities. The CDFI has taken on debt in a prudent way to fulfill its mission. While Century Housing's leverage position is shifting based on new debt liabilities, this is directly correlated to how active their programs have become. In the wake of a more aggressive lending platform, the CDFI has issued debt without impacting its overall financial position and operating flexibility.

### **Financial Profile: Stronger**

A criteria variation was made to the financial profile analysis by focusing on CDFI's debt-to-equity as the key metric for evaluating leverage and comparing it with other affordable housing lending organizations. Century Housing has recorded increases in several key ratios across its financial profile over the past five years (FY 2015-2019). The CDFI's total assets continue to grow; however, at the same time, the liabilities are growing as they issue debt to add new high quality assets to the balance sheet. Despite the growth in their liabilities, Century Housing's debt-to-equity ratio is strong at 1.1x, compared with the typical range of 0.0x-7.0x range for housing issuers rated in the 'AA' category.

### **Asymmetric Risk Additive Considerations**

Asymmetric risk factors are neutral to the rating. Debt characteristics are manageable with level debt service payments with the ability to prepay debt early with high quality assets and repayment on predevelopment loans. In addition, the governing body is solid with sound extensive experience and stability.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Strengthened financial performance reflected in positive trends in financial ratios over a sustained period of time could have a positive impact on the rating;
- Century Housing Corporation's leverage position is strengthened by stronger asset quality yielding a greater percentage of net assets to total debt as well as a decline in its debt-to-equity ratio.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- The rating is sensitive to deterioration in Century Housing Corporation financial performance with a debt-to-equity ratio increasing to above 7x;
- Should Century Housing's revenue-generating programs, such as the short-term variable rate mortgage loans, show a major decline in interest earnings and fees the CDFI's assets and overall financial position may result in negative pressure on the rating;
- Though remote, given the current levels of total assets to total liabilities, the rating is also sensitive to potential loss in revenue producing assets, mainly mortgage loans for multifamily program losses. High levels of mortgage loan delinquency coupled with higher losses on income from investments and a reduction in grants that fall upon the corporation's revenue producing assets-to-total debt

could strain the rating.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT PROFILE**

Century Housing Corporation is a mission-driven Community Development Financial Institution (CDFI) supporting quality affordable home development throughout California. With offices in Culver City and Oakland, Century provides end-to-end financing from predevelopment to permanent loans. Century Housing also serves as a reliable partner to state and local agencies, municipalities and other CDFIs in pioneering aggressive financing programs like the Golden State Acquisition Fund and L.A. County Housing Innovation Fund.

Century Housing finances affordable housing developments throughout California. From acquisition loans to bridge and construction loans, Century Housing has worked for more than 20 years to provide tax-credit developers and infill developers with loan solutions.

From its beginnings as a state agency and through the past 25 years of service as a private nonprofit, Century Housing's work has resulted in more than \$1.9 billion in financing for over 42,000 new affordable and workforce homes, more than \$600 million in capital under management, and nearly 4,700 construction jobs created in 2019 alone.

## **Revenue Defensibility**

Since becoming privatized in the mid-90s, Century Housing has financed more than 43,000 affordable apartment homes with more than \$1.9 billion in loan. Despite this, California's shortage of affordable housing persists. While no state has an adequate supply of affordable rental housing for the lowest income renters, the state of California has the most severe gap according to the National Low Income Housing Coalition, having less than the national level of affordable and available units per 100 households at or below the extremely low income threshold. California tops the list as of March 2020 with a deficit of 998,613 units for individuals at or below extremely low income threshold; this translates to about 26 available units per 100 households. The two metropolitan areas with the most severe deficit and demand for affordable housing are Los Angeles and San Francisco and the surrounding counties. Los Angeles' deficit of 377,117 translates to 20 available units per 100 households while San Francisco-Oakland area's deficit of 126,164 translates to 32 available units per 100 households.

There is strong demand across the state of California for affordable housing and Century Housing's competitive position is tied specifically to the types of products available to affordable housing providers along with its partnerships with other state and local agencies as well as non-profits that provide the same. The growth in Century Housing's asset base over the past five years demonstrates that they are responding to the overwhelming demand.

Affordable housing providers in general are price takers, which is the nature of their mission and lending model. The sophistication of Century Housing and its revenue generating assets is a key factor to offsetting the pricing characteristics. The variety of loan products, partnerships and investments are important to the overall model for the CDFI. Century Housing has an asset base made primarily of mortgage loans. The average net Interest spread, from 2015-2020 is 65%, which means that the nominal average difference between its borrowing and lending rates is strong. The spread is the difference between the average rates earned on assets minus the average rate paid on liabilities. This indicates that while they are price takers increasing their liabilities, they are making more on their low interest rate loan products than they pay for their overall liabilities. In 2019, Century Housing's total assets were \$475 million — the highest over the five year period and as far back as 2006. Of this asset base \$322 million were made up of mortgage loans. On average, (2015-2019) Century Housing's mortgage loan interest income was \$16 million while the average interest expense during the same time period was \$5 million.

## **Operating Risk**

Century Housing Corporation has created a model to fulfill their mission that does not impede on their ability to operate. The five year average of net operating revenue as a percentage of total revenues is 46%, which is an indicator of the CDFI's profitability. Century Housing's cost burden is low; creating flexibility in operations that contributes to positive margins. On a five-year average, Century Housing's operating revenue averaged \$22 million while total operating expense during the same time period averaged \$13 million.

Century Housing Corporation's net operating income on average is \$9 million. In 2019, the CDFI's total operating revenue totaled \$31 million while its expenses totaled \$18 million and net operating income was \$13 million. This is particularly strong considering Century Housing has taken on more debt in the last five years and still maintains a significant profitability margin. This is largely because the approach has been to tie the recent debt 1-1 to new mortgage assets creating a pass through concept.

Century Housing Corporation has a leverage model that they employ to account for annual volatility to cover at least three years of losses on the loan portfolio as well as its investments. In addition, while the CDFI's assets are mainly made up of mortgage loans they covenant that at all times 75% of the portfolio is made up of first lien mortgages. To date, the corporation has not added second lien mortgages to their portfolio above 10%, despite the 25% cap on those products. Lastly, the CDFI has maintained its sustainable revenue model of mortgage and investment income. They have experienced over the last five years extremely low delinquencies with the average current loans between 2016 and first quarter 2020 being 96.24%.

## **Financial Profile**

Century Housing Corporation has four major components of income: Lending Operations, Investment Portfolio of Marketable Securities, Contingent Assets (which have no liabilities tied to them) and Grants. Year-over-year, the corporation's total assets increased on average by 17% at the same time total liabilities on average increased by 27%. However, over the previous five years the liabilities are about 50% less than total assets, creating a well-managed and stable leverage profile while at the same time growing the balance sheet with new assets derived from short-term bond liabilities.

Century has grown its balance sheet with new assets added by issuing debt and originating mortgage loans. The debt in most instances is short term in nature and is conterminous with the mortgage loans that are originated from it. Century Housing's debt obligations are also comprised of

low interest rate notes payables and draws on lines of credit from Federal Home Loan Bank, Wells Fargo, US Bank and other local lending institutions. In 2019, Century issued \$100 million of bonds for housing lending activities (a portion to be refunded by the current issue) and had a total of \$240 Million in outstanding debt.

Century Housing's total cash, cash equivalents at the end of 2019 was \$147 million all of which is available for debt service. As Century Housing increased its net liabilities, the CDFI's total mortgage loan interest income increased from \$10.1 million in 2015 to \$26.6 million in 2019. At the same time, Century Housing's interest expense from amortizing debt increased from \$2 million in 2015 to \$10 million in 2019. On a five-year average, the ratio of interest- expense to interest-income is 30%. Century Housing's mortgage assets are 68% of total assets, generating more than half of the organization's revenue. Average net operating income after servicing its debt is \$11 Million, with 2019 being the highest ending at \$13 million.

There are four components to Century Housing's revenue sources. Mortgage loan interest income made up 42% of operating revenue in 2019 and averaged 33% from 2015-2019. The total investment interest income made up 3% in 2019 and averaged 5% during the same five-year period. The remaining operating revenue is derived from grants and off balance sheet income from single family and multifamily properties.

Asset quality is important to the CDFI's lending platform. While loan losses from delinquencies and real estate owned (REO) can often occur with the portfolio, over the past five years Century Housing has, on average, maintained 96% of its loans in a current position. This demonstrates strong asset quality with only 4% of the loans having experienced 30+ days delinquent. In addition, the CDFI has demonstrated that the REOs they do experience from properties in their portfolio are quickly divested to maximize the value of Century furthermore creating more funding sources to contribute to its lending platform. The largest amount the agency was potentially subjected to over the last five years was \$14 million in delinquencies at December 2019, which declined by 71% in the first quarter of 2020, with only \$4 million in delinquencies as of March 31, 2020.

While income from interest and dividends remains fairly stable year to year, realized and unrealized gain and loss can be volatile, because of the portfolio's inclusion of allocations to equities and high yield bonds. Historically these investments have provided a sufficient long term rate of return to justify the investment of such a significant proportion of assets but they do expose the portfolio to volatility. Century Housing's low leverage and high liquidity have enabled it to weather annual volatility. Further, it has demonstrated its commitment to adjust the asset allocation of its investments continually to reduce volatility (and with it, expected return) as it increases leverage and/or confronts other risks over time. The effects of this de-risking of the asset allocation can be seen in the portfolio's relative performance during the market volatility associated with the current coronavirus pandemic. Century Housing's marketable securities were affected from the market conditions with a loss of \$10.7 million (a 10% decline) in March, at the beginning of April the losses declined to \$8 million (7% decline) and declined even further to \$3 million (2.7% decline). As of June 5, 2020, Century Housing's investment portfolio regained all of its losses that it experienced to date.

Century Housing does maintain contingent assets without liabilities that are off balance sheet; however, revenue derived from these assets is made available and placed into overall revenue for the CDFI. Predicting the timing of pay offs from Century Housing's off balance sheet portfolio of contingent assets and residual receipt loans is difficult, and the CDFI does not depend on these assets for operations. While the assets are off balance sheet, Century Housing expects a significant proportion of the \$103.1 million value of this portfolio (\$62.7 million principal balance plus \$40.4 million of accrued interest) to pay off in the next six years as these loan assets reach maturity. In 2019, Century realized \$0.7 million in revenue from this off balance sheet portfolio and realized

another pay off of \$7.7 million in second quarter 2020.

Lastly, as with most non-profit organizations, grant revenue cannot be forecast with certainty. Century Housing's experience to date in applying for Department of Treasury CDFI Fund Capital Magnet Fund (CMF) and Financial Assistance (FA) grants has been positive; it received awards in all but one round of funding applied for, resulting in a cumulative grant total of \$22.4 million through the first quarter of 2020. While continuing grant awards are not assured, some level of future grant income is probable. In 2019 the CDFI received \$7.5 million in Capital Magnet Fund and \$0.7 million in Financial Assistance grant proceeds plus an additional \$0.3 million in contributions. Century Housing received an additional Capital Magnet Fund award of \$4.8 million in May of 2020.

### **Asymmetric Risk Additive Considerations**

Century Housing's debt characteristics are neutral to the rating given the type of debt outstanding as of 2019, including the issuance of the Series 2020 sustainability bonds. During 2019, the Corporation issued Century Housing Impact Investment Bonds, Taxable Series 2019 in the principal amount of \$100,000,000 pursuant to the terms of an Indenture of Trust, dated as of Jan. 1, 2019, with the BNY Mellon as trustee. The Bonds are a general obligation of Century Housing payable from all legally available revenues and assets of Century. The proceeds were used to refinance existing obligations and finance loans related to the development of multi-family affordable housing. The bonds were issued in tranches, wherein \$50 million, \$40 million and \$10 million bear interest rates of 3.824%, 3.995% and 4.148%, respectively, and have maturity dates of Nov. 1, 2020, Nov. 1, 2021 and Nov. 1, 2023, respectively. Interest incurred during 2019 was \$3,532,320. Debt issuance costs are being amortized to interest expense over the term of the bonds.

Additionally, Century Housing's Series 2020 (Sustainability Bonds) will be issued in an amount up to \$100 million to refinance certain existing obligations which principally financed loans made by Century Housing related to the development of multi-family rental housing in furtherance of Century Housing's goals to provide secure and affordable housing for families and individuals of modest means. A portion of the Series 2020 bonds will be used to refund \$50 million of 2019 outstanding bonds. The bonds will have semi-annual interest payment dates of May 1 and Nov. 1 commencing Nov. 1, 2020. The bonds are expected to consist of term bonds due Nov. 1, 2022 and 2023 and may include some longer tenors, as well. The Series 2020 bonds are subject to optional redemptions in full and in part from prepayment of loan payments by the borrowers unless such bonds shall be deemed to have been paid in full. Fitch analyzed this debt issuance assuming \$75 million with a three-year maturity and potential for a 20-year maturity for \$25 million.

Century Housing is a well governed organization with experienced management and a nine member board with a variety of backgrounds in and around California. In addition, Century has an eleven member executive team all of which many have significant experience in affordable housing development and lending at Century Housing or other mission driven organizations.

Century Housing has a leverage model that allows them to determine what the expected increase in leverage will be over the next few years with increasing loan asset volume; the annual rate of increase should reduce over time. Fitch analyzed the financial statements dating back to 2006 when Century Housing was completely unlevered (except for a \$2.8 million mortgage on Century's headquarters building). Century Housing provided Fitch with a leverage model that includes input ranges for stress testing scenarios based on the scenario analysis concept defined in Fitch's Public Sector, Revenue-Supported Entities Rating Criteria. Century does not anticipate that leverage will exceed 2.5x to 1.0x. Century Housing's revenue producing assets-to-debt was 1.9x in 2019 while the debt-to-cash available for debt Service, including the Series 2020 bonds, is 1.9x.

Century Housing is certified by the Community Development Finance Institutions Fund (a division of the Department of Treasury).

Century Housing's continuing disclosure includes audited financial statements and operating statistics for each fiscal year. In addition, they complete an annual report. These reports are complete timely and are made publicly available on their website dating back to 2006.

### **CRITERIA VARIATION**

Variation from Published Criteria

The analysis includes a variation from the Rating Criteria for Public-Sector, Revenue-Supported Debt. As Century Housing is rated solely using the master criteria, Fitch determined the most appropriate comparability is with State Housing Finance Agencies, as these are also affordable housing lending. As such, Fitch has utilized debt to equity as the key metric in the financial analysis, as it is the most relevant for affordable housing lending organizations. Fitch has referred to other rated affordable housing lending organization for peer comparison. Century Housing's debt-to-equity ratio of 1.1x, compares favorably with the 0.0x-7.0x range for housing issuers rated in the 'AA' category.

### **DATE OF RELEVANT COMMITTEE**

11 June 2020

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

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## **[S&P: Moderating Debt Burdens Allow Some U.S. States Room To Borrow During A Recession](#)**

### **Key Takeaways**

- With debt profiles comparatively stable since the Great Recession, S&P Global Ratings expects states will look to increase their capital borrowing.
- Generally, debt levels are sustainable at low-to-moderate debt ratios with capacity for growth for most states.  
Acceleration in infrastructure spending could buoy states' economies and induce longer-term growth.
- From a regional perspective, with the exception of California and Washington, the states at the top of total tax-supported debt list are all east of the Mississippi River.

[Continue reading.](#)

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## **[S&P U.S. State Ratings And Outlooks: Current List - 6/19/20](#)**

[View the current list.](#)

19 Jun, 2020

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## **S&P History Of U.S. State Ratings.**

[View the histories.](#)

19 Jun, 2020

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## **Powell Urges Congressional Help for Unemployed, Municipalities as Economy Recovers from Coronavirus.**

Federal Reserve Chairman Jerome Powell on Wednesday specifically recommended that Congress extend unemployment insurance benefits, support state and local governments, and funnel more help to cash-strapped small businesses.

Historically, the central banker has shied away from providing recommendations on what policies Congress should pursue. However, Powell expressed concern that an emerging recovery from the coronavirus pandemic could prompt lawmakers to curtail support prematurely.

"I would think that it would be a concern if Congress were to pull back from the support that it is providing too quickly," Powell said in virtual testimony to the House Financial Services Committee. He repeated that both the Fed and Congress should be prepared to do more based on the trajectory of the recovery.

Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in late March, those laid off from their jobs during the crisis are entitled to receive up to \$600 a week in additional unemployment insurance. However, the additional payment only lasts through July.

Powell added that while the May jobs report showed Americans going back to work fairly quickly, not all industries should expect to see rehiring right away. In high-contact services industries like food and accommodation, travel, and tourism, Powell warned that unemployment benefits may be needed past July, as unemployment could persist for a while.

"I think better to keep them in their apartments, better to keep them paying their bills," Powell said, declining to offer recommendations on specific policies.

Over the last few weeks, the Fed has emphasized that more help may be needed from monetary policy in addition to fiscal policy. In a speech Tuesday night, Fed Vice Chairman Richard Clarida acknowledged the central bank's unprecedented effort to ease financial conditions "may not prove to be durable, depending on the course that the coronavirus contagion takes."

### **Municipal help**

Fed chairs are usually reluctant to offer recommendations on fiscal policy, part of the central bank's efforts to insulate its actions from the politics of Capitol Hill.

But amid the COVID-19 crisis, Powell has gradually offered more commentary on Congressional actions, in part because much of the Fed's emergency actions are rooted in the CARES Act.

The Fed has launched eleven liquidity facilities as part of an unprecedented response to backstop a collapsing economy. Those include aid to corporate debt markets and loans to Main Street



businesses, many of which are backed by over \$200 billion of the \$454 billion pot of money appropriated to the Fed and the U.S. Treasury via the CARES Act.

In May, Powell deflected a question about what to do about municipalities across the country facing funding gaps, due to income and business tax bases drying up from the COVID-19 crisis.

"We try to stick to our knitting over here," Powell said in testimony to the Senate on May 19.

Powell's tone was markedly different on Wednesday, as he expressed concern that budget shortfalls are already leading to widespread layoffs in state and local governments. In April, 981,000 state and local government jobs were lost, and even the overall positive May jobs report detailed another 571,000 job losses in the sector.

"It will hold back the economic recovery if they continue to lay people off and if they continue to cut essential services," Powell warned.

Powell said direct support for municipalities would be "worth looking at." For the Fed's part, the central bank has stood up a Municipal Liquidity Facility to offer loans to states, local governments, and even some public authorities (like the New York Metropolitan Transit Authority).

## **Yahoo Finance**

by Brian Cheung

June 17, 2020

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### **States Grappling With Hit to Tax Collections.**

COVID-19 has triggered a severe state budget crisis. While the full magnitude of this crisis is not yet clear, state revenues are declining precipitously and costs are rising sharply with many businesses closed and tens of millions of people newly unemployed. Due to the economy's rapid decline, official state revenue projections generally do not yet fully reflect the unprecedented fiscal impact of the coronavirus pandemic. In many cases, states do not even know how much their revenues have already fallen, in part because they've extended deadlines for filing sales and income tax payments that otherwise would have been due in recent months. Executive and legislative fiscal offices in many states are analyzing new economic projections and producing initial estimates of the damage before state legislatures meet in regular or special sessions to address shortfalls. Some states have released initial or preliminary estimates. (See Table 1.)

[Continue reading.](#)

## **Center on Budget and Policy Priorities**

JUNE 15, 2020

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### **States Continue to Face Large Shortfalls Due to COVID-19 Effects.**

The restoration of a portion of the jobs lost as a result of COVID-19, as reflected in the Labor

Department's recent jobs report for May, was welcome news. Nevertheless, the economy remains in a deep recession, and state and local governments have been hit particularly hard. We now project that the state budget shortfalls expected from COVID-19's economic fallout will total a cumulative \$615 billion over the current state fiscal year (which ends on June 30 in most states), the new state fiscal year that starts on July 1, and the subsequent state fiscal year. This figure is for state shortfalls only and does not include the additional shortfalls that local and tribal governments and the U.S. territories face.

The private-sector job market performed somewhat better in May than many economists had expected, and this has led to some improvement in the outlook for the period ahead. That, in turn, has somewhat moderated the size of the shortfalls states face now and in the coming years. But states remain in dire straits; in just three months, state and local governments have furloughed or laid off more than 1.5 million workers[1] — twice as many as in all of the Great Recession. While some of those workers, such as school bus drivers and college security staff, are often furloughed during the summer, many of these and other workers will lose their jobs permanently in the coming weeks as states cut spending to balance their budgets, unless the federal government provides substantially more aid.

Our new shortfall figure, which is based on the Federal Reserve Board's summary of economic projections from last week[2] and the Congressional Budget Office's (CBO) May projections,[3] is lower than our estimate of three weeks ago but higher than our projection of early May.[4]

[Continue reading.](#)

## **Center on Budget and Policy Priorities**

BY ELIZABETH MCNICHOL MICHAEL LEACHMAN

JUNE 15, 2020

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### **States Face 'Uphill' Fight as Financial Gains Reverse, Firm Says.**

U.S. states are facing unprecedented fiscal stress and are poised to draw down their reserves as the pandemic-related shutdowns hammer tax collections, marking a stark reversal for governments that just a year ago were in the strongest financial shape in a decade, according to Conning.

The investment firm, which oversees \$8.8 billion in municipal bonds and issues an [annual report](#) on states, changed its outlook on their credit quality to negative from stable because of the coronavirus.

"The long-term impact of the Covid-19 pandemic on states' credit quality will be significant," Karel Citroen, head of the municipal credit research group at Conning, said in a statement. "States are facing an uphill battle with decreased sales and income tax revenues. They will have to address funding gaps by either using reserves, issuing debt, reducing expenditures and/or increasing revenues."

U.S. states are projected to see budget deficits of \$615 billion through 2022, a bigger hit than they faced in the immediate wake of the last recession, according to the Center on Budget and Policy Priorities.

States with growing populations and strong reserve levels will be able to better weather the

downturn, Citroen said in an interview. Utah remains the top-ranked credit, and South Carolina shot up 17 positions in a year to the fifth spot on the back of strong population growth, strong reserves, a growing economy and relatively low fixed costs, according to the report.

However, for states with high fixed costs, like legacy pension liabilities, and low reserve levels — including Illinois and Kentucky, which Conning assigned the lowest rank — the crisis will be hard to navigate without major structural changes, Citroen said.

These states risk falling into a “snowball” effect where population loss and high fixed costs translate into a need to increase taxes, which in turn will make them less desirable locations to live, said Citroen. The reverse is also true for the highly-ranked states with growing populations, he added.

“The divergence between the higher ranked states and the lower ranked states is going to increase,” Citroen said in an interview. “It’s so much easier to adjust or react to what we’re seeing right now with Covid-19 if you have the solid tax base to begin with, if you have reserves you can dip into.”

## **Bloomberg Markets**

By Fola Akinnibi

June 16, 2020, 5:00 AM PDT

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### **[Fitch: Student Housing Vulnerable in New Normal of Higher Education \(Pressures on Universities, Public Private Partnerships and CMBS Loan Performance\)](#)**

[Read the Fitch Special Report.](#)

Tue 16 Jun, 2020 - 11:47 AM ET

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### **[Fitch: Coronavirus Weakens Student Housing PPP, US CMBS Performance](#)**

Fitch Ratings-New York-16 June 2020: Unprecedented pressures on colleges and universities as a result of the coronavirus will weaken student housing asset performance across sectors, according to Fitch Ratings. Student housing public private partnerships (PPP) metrics have generally been stable through 2019, but student housing loans held by US commercial mortgage-backed securities (CMBS) portfolios performed weaker compared with the overall multifamily sector even before the outbreak. The effects of the pandemic are expected to further impair standalone student housing performance, as described in Fitch’s recently published report [Student Housing Vulnerable in New Normal of Higher Education](#).

Factors that traditionally drive student housing occupancy are now informed to a large extent by the course of the coronavirus and its effect on university enrollment trends and housing density policies. Declines in student revenues as a result of reduced enrollment will pressure standalone university housing and PPP projects. Most university-owned housing systems, which are secured by multiple revenue sources and not solely by net housing revenue, will be less affected.

Fitch's college and university base case scenario anticipates declines in enrollment in the upcoming school year to range between 5% to 10% with most residential campuses reopening in fall 2020. Our downside scenario considers declines of up to 20%, and sporadic closures if a spike of coronavirus cases occurs during the academic year. The continuation of distance learning in the fall would have an even more negative effect on housing and parking revenues, directly affecting demand-driven PPPs as well as the ability or willingness of CMBS borrowers to make debt service payments on student housing loans.

[Continue reading.](#)

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## **Higher-Education Bonds in a COVID-19 World.**

As the economy reopens from COVID-19 restrictions, a question looms: What will colleges and universities look like come fall? Will students return to a more normal on-campus learning experience, some form of online experience, a combination of both ... or will they simply not return? The question is important to municipal bond investors because the education sector accounts for roughly 7% of the investment-grade muni market.

We believe the core of a well-built muni portfolio should consist primarily of general obligation bonds and essential-service revenue bonds. However, for investors who wish to expand their municipal portfolios, another area to consider is higher-education revenue bonds, or bonds that are issued by public or private universities or colleges. But don't consider just any university or college, especially in a COVID-19 world.

[Continue reading.](#)

### **Advisor Perspectives**

by Cooper Howard of Charles Schwab, 6/22/20

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## **A Warning to Muni Bond Investors: Coronavirus Recession Will Decimate State Finances**

### **'Defund the police?' More like 'defund everything'**

The effects of the coronavirus pandemic have spread widely, causing over 100,000 deaths in the U.S., massive disruptions to the global economy and the loss, however briefly, of some 40 million jobs.

Now the next wave is about to hit: Shutdowns, layoffs, and business bankruptcies will cause a sickening drop in tax revenues for state and local governments, plunging their budgets deep into the red. That is likely to result in steep drops to government payrolls, maybe higher taxes and cuts in essential services.

It also could mean sharp declines in the quality of life of thriving urban centers. And it makes municipal bonds, which have done exceptionally well in recent years and have become particularly attractive to middle- and upper-middle-class people in high-tax states, a far less desirable

investment.

[Continue reading.](#)

## MarketWatch

By Howard Gold

June 19, 2020

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### [Cities Turn to K Street for Help with Coronavirus.](#)

CITIES TURN TO K STREET FOR HELP WITH CORONAVIRUS: The National League of Cities has hired its first Washington lobbying firm in more than a decade as the country's cities grapple with the coronavirus and the resulting budget shortfalls. Former Rep. Ed Royce (R-Calif.); Nadeam Elshami, a former chief of staff to House Speaker Nancy Pelosi; and nine others at Brownstein Hyatt Farber Schreck will lobby on municipal finance and the coronavirus, among other issues, according to a disclosure filing.

— “This is an unprecedented time in our country and for cities economic needs,” a National League of Cities spokesperson said in a statement. “The National League of Cities hired additional lobbying support to secure critically needed direct, flexible federal aid and support to help with our Cities Are Essential campaign. Local governments are calling for at least \$500 billion in direct federal funding to protect families, municipal workers and America’s economic future in response to the COVID-19 pandemic.”

— The National League of Cities’ decision to hire the lobbying firm came as a number of cities have turned to K Street for aid securing aid from the federal government. The city of Denver also hired Brownstein Hyatt in April to lobby on municipal finance “with a priority emphasis on COVID-19.” The city of Savannah, Ga., hired Holland & Knight to lobby on the coronavirus last month; the city of Detroit hired former Transportation Secretary Rodney Slater and another Squire Patton Boggs lobbyist last month; the city of Coral Springs, Fla., hired Alcalde & Fay in April to lobby on the coronavirus; and the city of Vallejo, Calif., hired Akin Gump Strauss Hauer & Feld.

— The National League of Cities also called on the Justice Department on Thursday to update its use of force guidelines for police officers. “While we appreciate the speed at which Congress and the Administration are moving to reform our nation’s law enforcement, federal actions taken thus far — including the President’s Executive Order signed this week — only scratch the surface of the critical reforms that our communities are desperately calling for,” Clarence Anthony, the group’s chief executive, said in a statement. But Brownstein Hyatt isn’t lobbying on police reform for the National League of Cities, according to the group.

POLITICO

By THEODORIC MEYER 06/19/2020 02:36 PM EDT

*With David Beavers and Daniel Lippman*

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## **NABL: House Democrats Release Moving Forward Act Fact Sheet**

Good afternoon,

Today, House Democrats announced plans for permanently reinstating Build America Bonds and tax-exempt advance refunding bonds while also expanding the issuance of private activity bonds. Speaker Nancy Pelosi said the proposals would be combined into one bill known as the Moving America Forward Act that will be voted on by the House July 1 or 2.

A fact sheet is [here](#).

We are awaiting further details and bill text, but a number of top priorities are expected to be in the package, including:

- Restoration of advanced refunding bonds
- Municipal Bond Market Support Act, HR 3967
- Revival of Build America Bonds
- New Markets Tax Credit permanence legislation, H.R. 1680

I will follow up with further details as they are released.

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Jessica Giroux  
National Association of Bond Lawyers  
Washington, DC  
(202) 503-3300  
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## **Is Another Exodus Ahead for U.S. Cities?**

**Without the right policy response, the pandemic and civil unrest could undo decades of urban progress.**

Picture two young people living in the same divided American city, both of whom decided to take to the streets to protest police violence in the wake of the killing of George Floyd. One is working-class, recently unemployed and living with extended family in a neighborhood plagued by violent crime. The other is upper-middle-class, securely employed and living with a spouse in a much safer neighborhood where serious crime is almost unheard of.

Both are committed to fighting racism and support defunding the police. But consider what happens if defunding the police doesn't turn out as its champions hope and the dangerous neighborhood grows more dangerous, the safe neighborhood less safe. Will the better-off of the two young people choose to endure a deteriorating quality of life in solidarity with the poorest of her neighbors? Or will she move out of the city and leave her fellow protester to pick up the pieces? If I had to guess, I suspect she'd bolt. Self-interest has a way of trumping other considerations, including ideological ones.

The twin crises of Covid-19 and the recent civil unrest represent a turning point for urban life in

America. They could herald an age of disorder and disinvestment for the American metropolis, or a civic revival that lifts the fortunes of city-dwellers of every color, class and creed.

As recently as February, it was hard to imagine that the workers, investors and entrepreneurs who have flocked to America's cities in recent years would flee en masse, not least because most cities had become so safe. Violent crime in the U.S. has fallen by half since the early 1990s, when the crack epidemic was raging in neighborhoods around the country. Hundreds of thousands of lives have been spared as a result of this extraordinary crime decline. Communities that saw steep declines in violence also saw increases in academic achievement, according to a 2014 study in the journal *Sociological Science* by Patrick Sharkey and colleagues.

The crime decline helped to stem the flow of people out of inner-city neighborhoods. It led a not insignificant number of high-income and college-educated families to choose to build their lives in neighborhoods that were once blighted and abandoned. It also created opportunities for less-skilled workers, many of them immigrants. Even as middle-skill jobs in production and clerical work evaporated, a large and growing urban service economy was a hopeful sign. Jobs in hospitality or entertainment, for example, depend on face-to-face interaction and a modicum of human warmth, making them resistant to automation.

Then the pandemic struck, causing a massive rupture in urban life that left millions of service workers unemployed, idle and angry. This development almost certainly contributed to the recent outbreaks of violence that were intertwined with the Floyd protests. Inevitably, the crippling of the service economy has also made urban life less attractive for the skilled professionals who fueled its expansion with their spending.

The shutdowns have already taught many large employers that much knowledge work can be done remotely. It remains to be seen if the rise of Zoom will transform America's urban geography, but it would be foolish to dismiss the possibility. In a recent survey of 1,500 U.S. hiring managers, Adam Ozimek, the chief economist at the online freelancer platform Upwork, found that 61.9% expected their workforce to be more remote in the years to come.

Consider the post-1960s transformation of America's urban cores, when poor black migrants arrived in large numbers and middle-class white residents fled. It's common to reduce this "white flight" to racial animus, and no doubt it played a role. But as the Princeton economist Leah Boustan observed in her 2017 book *"Competition in the Promised Land,"* many middle-class whites decamped for the suburbs in those years even when their own neighborhoods remained as white as ever.

Part of the story is that the arrival of poor black migrants changed the composition of the municipal electorate, shifting the political balance in favor of increased spending on public services, which meant higher taxes. In other words, white flight often amounted to people fleeing taxes, some of whom surely thought of themselves as committed to the cause of racial justice. And though this middle-class exodus started with white city-dwellers, many upwardly mobile black families soon made the same journey.

One can imagine a similar dynamic in the near future, with a steady outflow of middle- and high-income households driving change in the composition of municipal electorates. As cities grow poorer and less populous, and as public employees come to represent an even larger share of those with meaningful political influence, urban populists may promise to redistribute whatever wealth is left—which in turn will contribute to further outmigration.

What can be done to prevent a repeat of the post-1960s exodus from America's cities? The indispensable first step is to meet the threat of Covid-19, an effort that must be led by a competent

and committed federal government. Failure to contain and ultimately defeat the pandemic would do grievous harm to cities, where the virus spreads most easily, and to America's prospects for a meaningful economic recovery.

While fighting the pandemic, however, public safety can't be taken for granted. Instead of calling for defunding the police, urban leaders should focus on how they can make police departments more capable and effective. To foster more positive police-community relations, departments would do well to embrace precision policing, which leans on community outreach and careful analysis of crime patterns. The aim is to minimize adversarial encounters with law-abiding people who happen to reside in unsafe neighborhoods.

Cities must also limit the collective bargaining rights of public sector employees, to ensure that labor contracts don't lock in place rigid work rules that make it exceedingly difficult to boost efficiency. The coming years will be a time of fiscal retrenchment, which means that cities will have to get creative to maintain or improve the quality of public services while limiting spending. That simply can't happen without increased flexibility.

It is also time to end the gentrification wars that have roiled our most prosperous and productive cities over the past decade. The problem is real: A number of once-impooverished urban neighborhoods have grown so attractive to educated professionals that working- and middle-class residents, not to mention the very poor, have found themselves priced out. But the solution is not to resist new development, especially in the current economic climate. The best way to solve the problem of displacement in these neighborhoods is to relax and rescind counterproductive regulations and allow developers big and small to build new homes.

Finally, cities would do well to embrace a more pluralistic approach to education. There should be room for high-performing charter school networks, support for low-income families who send their children to private schools, and a more differentiated approach to learning within district schools. Urban school districts ought to look to Idaho, which gives the parents of every seventh grader \$4,125 to spend on education however they wish, from AP classes to remedial summer courses to training programs at local community colleges.

All these measures recognize that urban residents aren't a captive audience. Cities are facing a much more competitive landscape than they were even six months ago. Those that succeed will do so by offering the highest quality of life at a price that won't cause sticker shock. That is the surest route to maintaining urban communities that are more integrated, prosperous and just—a goal worthy of this moment.

## **The Wall Street Journal**

By Reihan Salam

June 18, 2020 9:50 am ET

*—Mr. Salam is the president of the Manhattan Institute and the author of "Melting Pot or Civil War? A Son of Immigrants Makes the Case Against Open Borders."*

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## **[While Washington Dithers, States Put Infrastructure Spending on Ice.](#)**

**With no federal aid in sight, local governments are canceling construction projects.**



For years, U.S. infrastructure has been waiting for a blast of new money. Instead, the coronavirus slump is draining away the already limited resources available to maintain and improve it.

Just three months ago, when the country went into lockdown to curtail the spread of Covid-19, there were expectations the crisis would spur the government and lawmakers in Washington into long-delayed action. The Trump administration is preparing to unveil a \$1 trillion infrastructure proposal as part of its push to revive the U.S. economy, according to people familiar with the discussions, while Democrats today presented their own \$1.5 trillion plan. Yet experts say that even if a bipartisan deal could be struck, any increase in federal funding for highways, bridges, and the like may not be enough to compensate for reductions in infrastructure spending at the state and municipal levels, preventing many projects from moving forward.

Tara Beauchamp, a project manager at Anderson Columbia Co., a family-owned contracting company in Lake City, Fla., has already seen at least one project canceled because states have been tightening their spending. She's worried that more will do so as the shutdowns and the recession eat into revenue streams that pay for transportation and other types of projects. Road traffic in the U.S. is down 38%, which is crimping revenue from excise taxes on gasoline and highway tolls.

"You don't know when they'll start trying to reserve money by being more cautious," Beauchamp says about the states. "We're going to senators and governors, preparing to tell them we need to keep the budget up for the state because a lot of people are affected. If we don't have road work, Caterpillar is not selling to contractors. From paint subcontractors to concrete manufacturers to men who lay sod, it trickles down to so many people." About 1 of every 10 jobs in America is related to infrastructure, according to the Brookings Institution.

Barbara Smith, chief executive officer of steelmaker Commercial Metals Co., based in Irving, Texas, told analysts in a March earnings call that she expected rapid moves toward an infrastructure bill. Some three months later, she and the rest of the industry are still waiting. In a May 19 interview, Smith said she worried about a slowdown in her business next year as states scramble to get a grip on how rising medical costs and other expenses related to the pandemic, as well as falling tax revenue, will impact them. On a June 18 earnings call she said she hasn't abandoned hope that Republicans and Democrats could arrive at a compromise, given that both parties are eager to create jobs. "I think there will be something that both sides can agree on," said Smith, noting that a deal in Washington could boost demand for steel by as much as 1.5 million tons.

Donald Trump has periodically called for more spending on infrastructure, including during his 2016 presidential campaign. On March 31 he tweeted that with interest rates back near zero, it would be a good time for a \$2 trillion infrastructure bill. That echoed his call two years ago for Congress to dedicate \$1.5 trillion for infrastructure investment. That plan required states to put up at least 80% of the total costs of projects.

But hopes for federal legislation ended in May 2019 after Democrats said the president vowed not to work with them unless they stopped investigating him and his administration.

After the pandemic hit, both parties appeared to converge around the idea of a public works-centered stimulus inspired by Franklin Roosevelt's New Deal. But momentum dissipated following disagreements on how to fund it. (In case you're wondering, spending on Depression-era infrastructure programs totaled about \$207 billion in present-day dollars.)

The inability of politicians in Washington to find common ground is forcing bureaucrats at the state level to scramble for alternatives. The American Association of State Highway and Transportation Officials estimates an average loss of at least 30% of state transportation revenues in the next 18

months if lockdowns continue and people remain in their homes. The association is asking Congress to greenlight about \$50 billion in flexible federal spending to offset those losses.

States are required to match about 20¢ of every dollar they get from the federal government to build highways and bridges. If a state fails to make the match, Washington cancels the funding. That can be devastating for states such as Montana, which gets as much as 90% of its infrastructure budget from the federal government.

Beauchamp says Anderson Columbia mostly does highway and bridge work in Florida and Texas, two states where infrastructure funding is in good shape. But the company has already seen the cancellation of a tender for a \$709 million project in North Carolina to widen Interstate 95 near Raleigh. It's on a 20-page list of delayed projects that appears on the website of the state's department of transportation. North Carolina, along with Texas and Florida, is among a group of states seeing a sharp uptick in new coronavirus infections, which is forcing authorities to divert monies to help fund the public health crisis.

Most infrastructure projects are prefunded, meaning companies aren't all that worried about 2020. But Beauchamp and others are already fretting about 2021 projects that might not receive financing if states remain partially closed. The real test may come in a matter of weeks, when states finalize spending plans for the fiscal year that begins July 1.

"When you have to shut down restaurants and small business, the impact is very sudden and severe," says Joseph Kane, a senior research associate at Brookings. "But when it comes to infrastructure projects, those budgets are determined a long time before. So right now we're sort of at the tip of the iceberg in terms of these impacts."

Also looming in September is the expiration of the FAST Act, a program last reauthorized under the Obama administration in 2015 giving \$305 billion in funding over five years for surface transportation infrastructure planning and investment. Lawmakers face a choice of either extending it or coming up with a long-term replacement.

The plan Democrats unveiled today goes far beyond roads and bridges. It encompasses roughly \$500 billion in highway and transit funds, \$100 billion for schools, \$100 billion for affordable housing, \$100 billion for broadband, \$65 billion for water projects, \$70 billion for the electric grid, \$30 billion for hospitals and \$25 billion for the Postal Service over 10 years.

It's not yet clear how closely the plan the Trump administration is putting together will align with the Democrats' proposal. "The bottom line is the state DOTs need a backstop," says Jay Hansen, executive vice president of advocacy for the National Asphalt Pavement Association. "All of them need Congress to do their job and pass a multiyear reauthorization bill with increased funding for investing in highways, roads, and bridges."

Smith, of Commercial Metals, said in the May interview that while her order book remains strong, her worry is that if state budgets run short and the FAST Act isn't renewed, the steel producer will see cancellations heading into next year. And that's the thing about the pandemic: The worry isn't just about a loss of economic activity now, but about the lingering effects of the virus months and potentially years down the line. "We have an economic shock that translates to an economic slowdown," she said. "But the FAST Act and making up some of the budget shortfalls could go a long way and be very helpful."

**Bloomberg BusinessWeek**

by Joe Deaux

June 18, 2020

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## **Water Groups Propose New Fed Program, Return of Advance Refunding.**

Water sector advocacy groups say water agencies will face cash-flow challenges over the next few years due to the coronavirus and want for federal relief through advance refunding and federal lending programs.

In a white paper released by the National Association of Clean Water Agencies this week, the group asked for different financing measures to help water facilities pull themselves through the pandemic. Those include asking the Federal Reserve to create a municipal short-term note program targeted for water systems and restoring tax-exempt advance refunding, among other tools.

Nathan Gardner-Andrews, NACWA's general counsel and chief advocacy officer, said he would want those provisions to be included in the next COVID-19 stimulus bill. Senate leaders have said that bill could be its last stimulus package. If their asks are not included in a stimulus bill, NACWA would want them to be folded into a water reauthorization bill, which has been introduced in both the Senate and House already, or an annual appropriations bill.

"The reality is that regardless if Congress passes another standalone coronavirus relief package that this federal government and Congress will continue to do things to address the economic fallout from the pandemic through the end of this year and maybe even into early next year," Gardner-Andrews said.

The water sector has been hit hard by the effects of COVID-19 and water utilities have said they are largely being left out of COVID-19 federal funding. NACWA estimated a \$16.8 billion revenue loss to clean water facilities and a \$13.9 billion revenue loss to drinking water utilities.

The water sector holds more than \$300 billion in outstanding municipal bond debt. Pre-pandemic, water sector issuers of different sizes had strong levels of liquidity, NACWA wrote.

"These metrics highlight that for most systems the crisis is less related to immediate cash requirements but instead related to the ability to withstand cash-flow challenges over the next one to three years," NACWA wrote. "This points to the opportunity to provide meaningful relief through restructuring of debt obligations."

NACWA wants to bring back tax-exempt advance refunding, which was eliminated by the Tax Cuts and Jobs Act of 2017. A lower debt service payment would help water utilities absorb revenue losses and would help those with bonds callable in the next one to three years, NACWA said.

NACWA also wants to increase the cap on bank-qualified bonds to \$40 million from its current \$10 million, which would allow banks to expedite access to low-cost capital needed to help water facilities weather the pandemic, NACWA said. Bank-qualified bonds allow banks to deduct most of the carrying costs of the debt as a business cost. The bonds have to have been sold by an issuer that issues no more than the cap that calendar year.

NACWA also wants to see the Fed create a Water System Liquidity Facility, which would be similar to the Fed's \$500 billion Municipal Liquidity Program.

The proposed program would provide short-term liquidity support for the water and wastewater sector. It would mirror the MLF closely, using a special purpose vehicle to purchase short-term notes and bond anticipation notes to assist in revenue impacts caused by COVID-19.

“Right now with the existing municipal window, water utilities have to jockey with every other municipal function and in most cases, it’s not the utility itself, it’s the city or county that is getting the funds,” Gardner-Andrews said. “Then, it depends on local politics and those jurisdictions on how those funds get divided up.”

NACWA wants to see the proposed program lend \$30 billion to water facilities, Gardner-Andrews said.

NACWA also suggested lawmakers supplement the Drinking Water State Revolving Fund and Clean Water Revolving Fund programs with short-term or no-interest loans to be repaid or forgiven after five years.

SRF’s act as infrastructure banks by providing low-interest loans for drinking water infrastructure projects. As money is paid back into the state’s revolving loan fund, the state makes new loans for other projects. These recycled repayments of loan principal and interest earnings allow the state’s fund to “revolve” over time. They are typically longer-term loans.

Last, NACWA wants to create a Taxable, Interest-Subsidized Infrastructure Bond, or TIIB, which would be similar to Build America Bonds and have those not be subject to sequestration.

Gardner-Andrews said NACWA has not had specific conversations with lawmakers yet.

“We tried to come up with some ideas, that if a certain concept wasn’t politically viable, there would be another option that would kind of achieve the same result, but might be more politically palatable,” he said.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 06/10/20 02:07 PM EDT

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### **[Fitch Coronavirus Stress Test: U.S. Large Airports and Concentrated Hubs \(Resilient Assets with Moderate Fiscal Pressures Under Stress Scenarios\)](#)**

[Read the Fitch Special Report.](#)

Wed 17 Jun, 2020 - 3:18 PM ET

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### **[Fitch Coronavirus Stress Test: U.S. Regional Airports \(Risks More Acute to Smaller Regional Airports Under Downside Scenarios\)](#)**

[Read the Fitch Special Report.](#)

Wed 17 Jun, 2020 - 1:48 PM ET

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## **Fitch Coronavirus Stress Test U.S. Airports' Special Revenue Bonds (Limited Revenue Pledge May Pose Elevated Risk Should Traffic Downturn Persist)**

[Read the Fitch Special Report.](#)

Wed 17 Jun, 2020 – 3:24 PM ET

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### **Fitch: Most U.S. Airports Resilient So Far Amid Coronavirus Fallout**

Fitch Ratings-New York-17 June 2020: Most U.S. airports are expected to have the financial capability of withstanding large passenger traffic declines likely to persist at least for the remainder of 2020, according to stress tests conducted by Fitch Ratings of its entire portfolio of rated U.S. airports. The results are detailed in a series of reports published today.

A key question that will dictate performance of all rated airports over time, however, will be “How long will these seismic declines in passenger traffic and subsequent revenue declines last?” While most Fitch-rated airports have safeguards in place that will protect them by and large from coronavirus-fueled losses, each subset has pockets of concern.

Fitch’s rating case contemplates enplanement declines of approximately 50% in calendar year 2020 (relative to 2019), with a recovery of 85% in 2021, 95% in 2022, and 100% in 2023 (relative to 2019). Fitch also modelled two more severe coronavirus downside cases to reflect an additional quarter period of severe traffic declines as well as prolong timeframe to recover back to 2019 levels.

#### **LARGE AIRPORTS AND CONCENTRATED HUBS**

Fitch revised the Rating Outlook for the vast majority of its rated large airports to Negative due to the virtual stoppage of air traffic brought on by the pandemic. Key credit metrics of Fitch-rated large airports would remain largely stable over the medium term against the numerous stresses Fitch applied. That said, “Large airports that serve as fortress hubs for a single carrier may have greater vulnerabilities with regards to recovering its connecting segment of passengers when compared to O&D traffic,” said Director Jeffrey Lack. Among the large airports with elevated risk include Charlotte, Chicago-Midway and Dallas-Love Field. Another notable anomaly is New York’s LaGuardia Airport, which saw passenger volumes decline substantially from coronavirus-related service reductions despite serving one of the strongest markets in the U.S. This led Fitch to place LaGuardia’s central terminal development bonds on Rating Watch Negative.

#### **REGIONAL AIRPORTS**

The same level of resiliency applies to most of Fitch’s rated regional airports. “Airline revenues for regional airports tend to be better protected against volume declines as they are closely tied to cost recovery mechanisms under lease agreements,” said Jeffrey Lack. However, some regional airports, particularly those with a more limited underlying traffic base, would be susceptible to downgrades under Fitch’s more severe stress scenario. This includes airports in Buffalo, Burlington, Dayton, Fresno and Harrisburg, all of which Fitch placed on Rating Watch Negative as a result of the coronavirus fallout.

#### **INTERNATIONAL GATEWAY AND PRIMARY HUB AIRPORTS**

The international gateway airports included in Fitch's review typically benefit from a high degree of franchise strength with many serving as primary destinations for foreign-flag carriers with direct service into major U.S. markets and can also serve as a "primary hub" for the respective airlines. They also however, tend to operate with more leverage. Further, single terminal projects tend to have relatively low liquidity cushions relative to entire airport facilities. A notable example is New York's JFK Airport. Fitch downgraded its Terminal One and Terminal Four project bonds. "Both terminals have more limited revenue pledges to support costs depending on carrier payments and terminal concessions," said Lack.

## SPECIAL REVENUE BONDS

Performance of the airport consolidated car rental (CONRAC) and parking system projects, fuel facilities, and passenger facility charge (PFC) backed bonds issued by medium- and large-hub airports have been more of mixed bag. Reason being is these projects are exposed to volume risk, and to some extent, counterparty performance. Notable cases are Baltimore's (BWI) passenger facility charge bonds, which diluted its financial profile with additional debt last year only to have the effects compounded by coronavirus volume losses. As a result, Fitch downgraded BWI bonds. The same type of pressure holds true for Philadelphia Parking, which Fitch placed on Rating Watch Negative as the precipitous shock to demand coupled with limited balance sheet liquidity could create a need to tap into the debt service reserve fund and creates uncertainty around future borrowing plans.

The following reports are all available at '[www.fitchratings.com](http://www.fitchratings.com)'.

- 'Coronavirus Stress Test: U.S. Regional Airports';
- 'Coronavirus Stress Test: U.S. Large Airports and Concentrated Hubs';
- 'Coronavirus Stress Test: U.S. International Gateway and Primary Hub Airports';
- 'Coronavirus Stress Test: U.S. Airports - Special Revenue Bonds'.

Contact:

Seth Lehman  
Senior Director  
+1-212-908-0755  
Fitch Ratings, Inc.  
300 West 57th Street  
New York, NY 10019

Jeffrey Lack  
Director  
+1-312-368-3171

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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**[Fitch Coronavirus Stress Testing: U.S. International Gateway and Primary Hub Airports \(Franchise Strength and Liquidity Offset Downside Stresses,](#)**

## **Terminal Projects More Exposed)**

[Read the Fitch Special Report.](#)

Wed 17 Jun, 2020 – 1:38 PM ET

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### **In the Covid Era, the Relationship Between Cities and Megadevelopments Makes Even Less Sense.**

Sidewalk Labs' Waterfront Toronto project was the first high-profile megadevelopment to be undone (at least in part) by Covid-19, and it may not be the last. The project, battered by years of controversy over the Alphabet-affiliated company's desire to turn a 12-acre (and later a 362-acre) Quayside area into the world's first neighbourhood "built from the internet up," gave up the ghost in early May, with Sidewalk CEO Dan Doctoroff citing "unprecedented economic uncertainty" for the withdrawal.

Unprecedented economic uncertainty is, improbably, an understatement. With a coronavirus vaccine unlikely to emerge until 2021 at the earliest, there remains no way for the economy to come fully back to life without significant loss of life, a reality that has already disproportionately hurt lower-income communities of color. In this environment, large-scale projects like Quayside appear increasingly untenable, laying bare many of the criticisms brought against such developments: speculative by nature, they make even less sense in an economy decimated by the virus.

Although both are still active, I think of two similar megadevelopments currently planned for Chicago, where I live: Lincoln Yards and The 78, projected to cost \$6 billion and \$7 billion, respectively. Lincoln Yards, located adjacent to the wealthy Lincoln Park and Bucktown neighbourhoods on the city's North Side, originally promised the construction of a Major League Soccer stadium and three Live Nation-owned performance venues, but both of those aspects were eventually scuttled, leaving a mixed-use residential and retail district built on the banks of the Chicago River. Meanwhile, The 78, so named as a proposed addition to the city's existing 77 community areas, also offers a river-centric, mixed-use plan, with a technology and business incubator and towers reaching nearly 1,000 feet. It's slated for construction just south of downtown, served by the addition of a new train station on the CTA Red line.

[Continue reading.](#)

#### **CityMetric**

By Annie Howard

June 19, 2020

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### **Mid-Grade Munis Have Room To Rebound.**

#### **Summary**

- Caught in the COVID-19 economic downdraft, the municipal market suffered unprecedented

volatility in March.

- Since then, however, demand for higher-grade municipal bonds has soared, driving the Bloomberg Barclays AAA Municipal Index up 11% between its March 23 low and May 31.
- Many mid-grade municipal issues – such as BBB-rated bonds – have lagged this rally, even as other higher-risk assets, such as corporate debt and equities, have enjoyed strong comebacks.

[Continue reading.](#)

## Seeking Alpha

Jun. 18, 2020

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### **Federal Reserve Opens Municipal Liquidity Facility And Releases Transaction Documents.**

The Board of Governors of the Federal Reserve System (the “Federal Reserve”), through the Federal Reserve Bank of New York (the “Reserve Bank”), has opened its new CARES Act lending program for state and local governments affected by COVID-19, known as the Municipal Liquidity Facility (the “MLF”).[1] The State of Illinois will be the first borrower under the MLF, with a planned issuance on June 5, 2020 of \$1.2 billion general obligation bond anticipation notes, maturing in one year and bearing interest at 3.8%.

On May 15th, the Federal Reserve released its form Notice of Interest (“NOI”), which enables Eligible Issuers[2] to express their interest in selling Eligible Notes[3] through the MLF.[4] Municipal Liquidity Facility LLC, the special purpose vehicle established by the Federal Reserve to facilitate the MLF, will serve as the purchaser of the Eligible Notes (the “Purchaser”). The NOI was followed by the release on May 18th of a sample application (the “Application Form”), including an attached Supporting Document Checklist (the “Checklist”), and form documents and certifications (collectively, the “Form Documents”) for the MLF. The requirements of the Application Form, Checklist and Form Documents are summarized below.

#### **Recent Updates to Eligible Issuers**

Before we review the Form Documents, we note that on June 3, 2020, the Federal Reserve released an updated term sheet (the “Term Sheet”) and updated frequently asked questions (the “FAQs”) for the MLF.[5] As described in the Term Sheet and the FAQs, the list of Eligible Issuers has been expanded to include “Designated Cities,” “Designated Counties” and “Designated RBIs.” Designated Cities and Designated Counties are cities and counties designated by a governor for participation in the MLF where the state has less than two cities and counties (on a combined basis) with populations exceeding 250,000 residents and 500,000 residents, respectively (i.e., the population thresholds for participation in the MLF).

Included with the updated FAQs is a table showing the maximum number of Designated Cities and Designated Counties that may be identified by each governor. The numbers in the table were selected to ensure that each state. In situations where a governor is able to designate only one Designated City or Designated County, the governor may choose either (i) the most populous city in the state with 250,000 residents or less, or (ii) the most populous county in the state with 500,000 residents or less. In situations where a governor is able to designate two Designated Cities and Designated Counties (on a combined basis), the governor may choose: (i) the most populous city and



most populous county; (ii) the most populous city and second-most populous city; or (iii) the most populous county and second-most populous county.

Designated RBIs consist of up to two Revenue Bond Issuers designated by a governor for participation in the MLF.[6] A “Revenue Bond Issuer” is defined as a state or political subdivision of a state, or a public authority, agency, or instrumentality of such state or political subdivision, that issues bonds payable from revenues of a specified source that is owned by a governmental entity (i.e., public transit, airport, toll facility and utility revenues).

To participate in the MLF, each Designated City, Designated County and Designated RBI must deliver: (i) with its NOI, evidence that the governor of the applicable state will designate the city or county as a Designated City or a Designated County; and (ii) at closing, a governor’s certification reflecting the designation.[7] The ratings criteria for Designated RBIs and the debt limit and type of security required for its Eligible Notes are the same as for Multi-State Entities.[8]

## **Application Form**

As we noted in MLF Blog 4, if an Eligible Issuer’s Notice of Interest (“NOI”) is approved, the Eligible Issuer will be invited to submit an application for financing through the MLF.[9] The application consists of: (i) the completed Application Form and the Checklist; (ii) a signed Issuer Certification included as Section F to the Application Form (the “Issuer’s Application Certification”)[10]; and (iii) all attachments requested and referenced in the Application Form and Checklist (collectively, the “Application”).

Similar in format to the NOI, the Application Form contains a list of confirmatory and supplemental questions pertaining to the Eligible Issuer and the Eligible Notes which are generally standard for public finance transactions, including: (i) identifying information for the Eligible Issuer and other working group members; (ii) a bring-down confirmation that the information submitted in the NOI remains unchanged; (iii) details of the Eligible Notes (including the applicable series designation, maturity date, principal amount, interest payment date(s) and tax status); (iv) confirmation of the proposed closing date; and (v) a description of the required authorizing actions and approvals obtained and to be obtained by the Eligible Issuer (including any appeal periods).

In addition to these general questions, the Application Form requires Eligible Issuers to provide the following specific information relative to the MLF:

1. For Eligible Notes consisting of TRANs, TANs or similar notes to be repaid from revenues, a description of any statutorily-required or policy-determined revenue set-asides to be used for repaying the Eligible Notes, including the plan for repayment in situations where the set-asides are not required;
2. For Eligible Notes that are BANs, a description of the repayment plan, including the governmental authorizations for the issuance of the bonds that will repay the BANs;
3. A bring-down of the Eligible Issuer’s efforts to obtain the required ratings actions from the major nationally-recognized statistical rating organizations (“NRSROs”) with respect to the Eligible Issuer and the proposed credit for the Eligible Notes, as described in the NOI;[11]
4. Confirmation of the Eligible Issuer’s compliance with its existing continuing disclosure undertakings under Rule 15c2-12 of the Securities Exchange Act of 1934 (“Rule 15c2-12”);[12] and
5. For transactions using a Designated Issuer, confirmation that either the Eligible Issuer or the Designated Issuer, or both, will be responsible for providing continuing disclosure to the MLF, and if both, a description of the information to be provided by each entity. Similar to the NOI, Eligible Issuers may attach and cite to other source documents in responding to the Application

Form, provided, that they include the name of the document and the relevant pages or sections.

## **The Checklist**

### *Transaction Documents*

The Checklist consists of a list of documents that must be included with the Application Form, including the following final form documents for the Eligible Notes[13]: (i) authorizing resolution; (ii) form of Eligible Notes; (iii) a form of authorization, incumbency and signature certificate for the Eligible Issuer or Designated Issuer; (iv) other Eligible Note documents (e.g., general/series resolution, indenture or other note agreement; bond ordinance, statute or other authorization documents; documentation evidencing the security for the Eligible Notes; and any other transaction documents); (v) a timeline for any pending authorizing actions or approvals; and (vi) for Eligible Notes that are BANs, documentation providing for the authorization and issuance of the bonds to be issued to repay the BANs. For transactions involving a Designated Issuer, Eligible Issuers must also provide either: (i) the form of agreement whereby the Designated Issuer commits the credit of, or pledge the revenues of, the applicable state, city or county; or (ii) the form of guarantee of the Eligible Notes by the applicable state, city or county (each a “Designated Issuer Document”).

### *Required Opinions*

The Checklist also requires Eligible Issuers to provide drafts of the following opinions, each in final form: (i) an opinion of bond counsel as to the validity, enforceability and binding nature of the Eligible Notes; (ii) an opinion as to the exemption of the Eligible Notes from the registration requirements of the federal securities laws; (iii) for a competitive offering, a Rule 10b-5 opinion of bond counsel (the “Rule 10b-5 Opinion”)[14]; (iv) a tax opinion of bond counsel or special tax counsel, if the Eligible Notes are to be issued as tax-exempt securities; and (v) an opinion as to the validity, enforceability and binding nature of the applicable Designated Issuer Document, if the Eligible Notes are to be issued by a Designated Issuer.

### *Diligence Documents – Competitive Offering versus Direct Purchase*

Eligible Issuers will also be required to provide specific documents depending on whether the sale of the Eligible Notes is being effectuated through a competitive offering (where the Purchaser is either submitting a bid or serving as the fallback purchaser following the competitive bid process) or a direct purchase to the Purchaser.[15] For competitive offerings, the Eligible Issuer must provide the same level of disclosure normally prepared for a public offering of notes, specifically: (i) the form of notice of sale; (ii) the preliminary official statement;[16] and (iii) the Rule 10b-5 Opinion in final form.

In contrast, for a direct purchase to the Purchaser (where no preliminary official statement or other offering document is prepared), the Eligible Issuer must provide: (i) copies of the Eligible Issuer’s financial information and operating data provided to the NRSROs in connection with obtaining the required ratings confirmations;[17] (ii) the Eligible Issuer’s most recent audited financial statements for the past two years; (iii) unaudited fiscal year-to-date financial statements presented to the Eligible Issuer’s governing body; (iv) the Eligible Issuer’s budget for the current and next succeeding fiscal year; (iv) its most recent official statement (or other offering document) for obligations that are secured on a parity basis with the Eligible Notes; and (v) for Eligible Notes that are TANs, TRANs or similar notes, cash-flow statements prepared during the last 60 days (including prior-year actuals and 12-month projections).[18]

### *Additional Thoughts*

For certain documents listed on the Checklist, Eligible Issuers may indicate that they are either not applicable or not available; provided, that it is not clear how the Federal Reserve will respond to such a determination. In any event, Eligible Issuers are encouraged to review the Checklist prior to submitting the Application, to ensure that all of the required information has been included.

## **Next Steps**

Once submitted, Eligible Issuers will receive an email confirming receipt of the Application and, if the Application is approved, a further email: (i) confirming approval of the Application; (ii) providing the anticipated pricing and closing dates (in consultation with the Eligible Issuer); (iii) designating a primary contact at BLX Group LLC, the administrative agent for the MLF (“BLX”), to facilitate pricing and closing; and (iv) setting forth any additional requirements and conditions.

## **Form Documents**

The Form Documents consist of: (i) the Note Purchase Agreement (the “NPA”) between the Eligible Issuer or the Designated Issuer, as applicable (the “Issuer”) and the Purchaser; (ii) the Note Purchase Commitment (the “NPC”) between the Issuer and the Purchaser; (iii) the Continuing Disclosure Undertaking of the Issuer (the “CDU”);<sup>[19]</sup> and (iv) a packet of certificates to be delivered by the Issuer at closing (the “Issuer Certification Packet”).

### *The NPA and NPC*

The NPA sets forth the terms and conditions governing the purchase of the Eligible Notes from the Issuer in either: (i) a direct purchase transaction where the Issuer sells the Eligible Notes to the Purchaser; or (ii) a competitive offering where the Purchaser does not submit a bid but rather acts as the fallback purchaser. In contrast, the NPC sets forth the terms and conditions governing the Purchaser’s submission of a bid to, and ultimate purchase of the Eligible Notes from, the Issuer in competitive offerings where the Purchaser submits a bid.<sup>[20]</sup> As a practical matter, this is where the differences between the NPA and NPC end. Both documents: (i) are similar in form and substance to bond or note purchase agreements used in other public finance transactions generally; (ii) memorialize the terms and conditions for the MLF that were described in the Term Sheet and the FAQs; and (iii) contain substantially the same requirements for closing; representations, warranties and covenants of the Issuer; conditions for the Purchaser to submit a bid and/or purchase the Eligible Notes; and termination rights. Nevertheless, Issuers should pay particular attention to the following unique provisions as they review the NPA and NPC.

### *Pricing and Closing Logistics*

The Purchaser will send: (i) a completed and executed NPA to the Issuer on the agreed-upon pricing date for a direct purchase transaction or (ii) a completed and executed NPA (for competitive offerings where the Purchaser is the fallback purchaser) or NPC (for competitive offerings where the Purchaser submits a bid) within three (3) business days after the Purchaser approves the Application. The Issuer must execute and return the NPA or NPC within one (1) business day of its receipt. Schedule I to the NPA and the NPC (in each case, “Schedule I”) will set forth certain information regarding the Issuer and the Eligible Notes, including, but not limited to: (i) the principal amount of the Eligible Notes; (ii) purchase price;<sup>[21]</sup> (iii) closing date;<sup>[22]</sup> (iv) maturity date; (v) tax status; (vi) ratings information; (vii) use of proceeds; and (vi) interest rate. With respect to the interest rate, for direct purchase transactions, Schedule I will include the actual interest rate for the Eligible Notes. In contrast, for competitive offerings, Schedule I will include a description of the formula for determining the interest rate, as more particularly described in Appendix B to the FAQs. The Purchaser will determine the interest rate on the morning of the competitive offering and

communicate it to the Issuer either through its bid submission (for competitive offerings where the Purchaser submits a bid) or directly to the Issuer prior to the competitive bid process (for competitive offerings where the Purchaser is the fallback purchaser).

### *Required Statements and Other Actions for Competitive Offerings*

For competitive offerings, the NPA or the NPC, as applicable, requires the Issuer to: (i) include language in the notice of sale describing the Purchaser's commitment to purchase or submit a bid to purchase the Eligible Notes, as applicable; and (ii) notify the Purchaser in writing of the results of the competitive bid process immediately following its completion, in the form of Exhibit A to the NPA or the NPC (the "Notice of Results of Competitive Bid"), which notice will be countersigned by the Purchaser. In addition, for competitive offerings where the Purchaser is submitting a bid, the Issuer must deliver to the Purchaser the final notice of sale, in a form acceptable to the Purchaser, not later than three (3) business days prior to the competitive sale date.

### *Ratings Requirement*

The Issuer must provide the Purchaser with evidence of the long-term ratings applicable to the credit for the Eligible Notes and, for competitive offerings, the short-term ratings on the Eligible Notes, on or prior to the pricing date (for direct purchase transactions) or the date the Issuer conducts the competitive bid process (for competitive offerings), followed by ratings confirmation letters from the NRSROs at closing.[23]

### *Representations and Warranties*

For the most part, the Issuer's required representations and warranties included in the NPA and NPC are substantially similar to the ones generally found in other bond or note purchase agreements. However, Issuers should pay particular attention to the following unique representations:

1. In addition to the typical "no materially adverse litigation" representation, Issuers must represent that there is no litigation that would in any other manner adversely affect the source of repayment of the Eligible Notes (regardless of the materiality of such litigation).
2. Except as otherwise disclosed to the Purchaser, Issuers must represent that they are not aware of any material adverse change in their financial position, results of operations or condition, financial or otherwise, from what is set forth in the audited and unaudited financial statements that the Issuers previously provided to the Purchaser.[24]
3. The Issuers must represent that all information provided to the Purchaser, including the information provided in the Application and NOI (unless revised in the Application), remains true, correct and accurate (no materiality qualifier).

### *Final Official Statement in Competitive Offerings*

Although implied in the FAQs and the Application Form, the NPA and NPC clarify that, for competitive offerings, the Issuer is responsible for producing both a Preliminary Official Statement (the "POS") and a Final Official Statement (the "FOS"), even if the Purchaser ends up as the sole purchaser of the Eligible Notes. The FOS must be delivered to the Purchaser no later than two (2) business days prior to the closing date. To that end, bond counsel will be required to provide not only the opinion as to the exemption of the Eligible Notes from the registration requirements of the federal securities laws, but also the Rule 10b-5 opinion covering both the POS and the FOS.

### *Closing Documents*

The NPA and NPC include as Exhibit B a closing certificate of the Issuer (the “NPA/NPC Closing Certificate”), which functions as a bring-down of certain provisions of the NPA and NPC at closing, specifically that: (i) the Issuer’s representations and warranties remain true and correct, (ii) the Issuer has complied with its covenants (specifically including the ratings requirements); (iii) all of the transaction documents are in substantially the final forms previously presented to the Purchaser; and (iv) the Issuer has satisfied each of the other conditions to closing, all as set forth in the NPA and NPC.

The terms of the NPA and NPC confirm that the Purchaser will not deliver any certifications, receipts, agreements, instruments or other closing documents (including issue price certificates) beyond the NPA and the NPC (and the Notice of Results of Competitive Bid, which is countersigned by the Purchaser). This requirement may be problematic for Issuers, since the NPA and NPC will be executed prior to the closing date for both direct purchase transactions and competitive offerings. At a minimum, underwriters and purchasers typically sign a receipt and an issue price certificate (for tax-exempt issuances) at closing in connection with the issuance of most municipal securities. It appears that Issuers accessing the MLF will have to forego such documents, accepting: (i) the Purchaser’s wire transfer of the purchase price of the Eligible Notes and (ii) email correspondence between the parties, as the Issuer delivers the various closing documents, opinions and rating confirmations to the Purchaser, as tangible confirmation that the Purchaser has purchased the Eligible Notes on the closing date.

### *Termination*

The NPA and NPC will terminate and be of no further force and effect if: (i) the Issuer is unable to satisfy the conditions set forth in the NPA and NPC; (ii) the Issuer’s general obligation or issuer credit ratings are downgraded below the lowest rating level required for Issuers participating in the MLF or are otherwise withdrawn; or (iii) all of the Eligible Notes are sold to other purchasers through a competitive offering.

### *Governing Law*

The NPA and NPC will be governed by the laws of the State of New York and the Issuer must: (i) submit to the exclusive jurisdiction of the courts of the United States for the Southern District of New York (and the appellate courts thereof) and (ii) consent to any related actions or proceedings being brought only in such courts.

### *CDU*

Consistent with the disclosure obligations described in Rule 15c2-12, the CDU is substantially similar in form and substance to continuing disclosure agreements delivered in connection with the issuance of publicly-sold municipal securities. As such, the requirements of the CDU that Issuers file annual financial reports (the “Annual Report”) and notices of certain enumerated events with the Purchaser will be familiar to Issuers that are already a party to existing continuing disclosure agreements.<sup>[25]</sup> However, Issuers should note the following required filing deadlines and additional disclosure obligations, which are unique to the CDU.

### *Filing Deadline for Annual Financial Information*

Even if the Issuer has a different filing deadline under its existing continuing disclosure agreements, the CDU requires the filing of the Annual Report not later than six months after the end of each fiscal year, commencing with the report for fiscal year 2020.

## *Additional Financial Disclosure Requirements*

Beyond the Annual Report and notices of certain enumerated events, the CDU requires Issuers to provide the following additional disclosures:

1. Not later than forty-five (45) days after the end of each calendar quarter, (a) quarterly reports: (i) of cash flows, showing actual results compared to projections included in the prior report and the projected results for the succeeding twelve-month period (or to the maturity of the Eligible Notes, if shorter) and (ii) of the implementation status and funding of planned set asides, with an explanation of any negative variances; and (b) quarterly financial reports/information in a format provided to governing bodies or otherwise to the public;
2. Not later than ten (10) business days after the occurrence thereof, any changes in the long-term ratings applicable to the security for the Eligible Notes; and
3. Not less than six months prior to, and again at three months prior to, the maturity of the Eligible Notes, a written report explaining the Issuer's plan to pay the Eligible Notes at maturity; provided, that, in the case of BANs, such report must identify any material credit or other matters relating to the issuance of the Bonds expected to repay the BANs.

The Issuer may satisfy these disclosure obligations by: (i) filing such information with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system and notifying the Purchaser of such filing; (ii) with respect to the information described in subsection (1) above, posting the reports on its website, notifying the Purchaser that the information is available and providing a link to the website; or (iii) with respect to the information described in subsections (2) and (3) above, submitting the notice/report directly to the Purchaser.

Additionally, the Purchaser reserves the right: (i) to request and receive other information relating to the Issuer's ability to repay the Eligible Notes and (ii) publicize any information received in connection with its purchase of the Eligible Notes, including the information received under the CDU.

As noted in the NPA and NPC, Issuers should be aware that the CDU is a particular requirement of the Purchaser. As such, and in accordance with Rule 15c2-12, a further continuing disclosure agreement may be necessary or appropriate in competitive offerings where, in addition to the Purchaser, one or more underwriters purchase a portion of the Eligible Notes.

### *Issuer Certification Packet*

In addition to the NPA/NPC Closing Certificate (the form of which is included as Exhibit B to the NPA and NPC), the Form Documents include an Issuer Certification Packet consisting of the following certificates to be delivered by the Issuer at closing: (i) the certificate as to the Issuer's solvency and the lack of adequate credit (the "Solvency and Adequate Credit Certificate"), as required by of Section 13(3) of the Federal Reserve Act ("Section 13(3)") and the Federal Reserve's Regulation A ("Regulation A"); (ii) the certificate regarding the conflict of interest requirements of Section 4019 of the CARES Act (the "Conflict of Interest Certificate"); (iii) the certificate regarding the U.S. business requirement of Section 4003(c)(3)(C) of the CARES Act (the "U.S. Business Certificate"); and (iv) the certificate regarding the forms of the closing documents (the "MLF Closing Certificate").

### *Solvency and Adequate Credit Certificate*

Under Section 13(3) and Regulation A, as a condition to participating in the MLF, the Issuer must certify that: (i) it is not insolvent<sup>[26]</sup> and (ii) it is unable to secure adequate credit accommodations

from other banking institutions.[27]

### *Conflict of Interest Certificate*

Section 4019 of the CARES Act places certain conflict of interest restrictions on entities that issue equity interests.[28] Given the governmental nature of the entities that would qualify as Issuers under the MLF, it is highly unlikely that they would be issuing equity interests. As such, Issuers will be required to certify that they are not subject to these restrictions because they issue no equity interests.

### *U.S. Business Certificate*

Sections 4003(a) and (b) of the CARES Act authorized the establishment of certain liquidity facilities for eligible businesses, states and municipalities relative to the COVID-19 pandemic including, with respect to Issuers, the MLF. Under Section 4003(c)(3)(C), such facilities may not purchase obligations from a business unless the business is created or organized in the United States or under the laws of the United States and has significant operations in and a majority of its employees based in the United States. Section 4003(c)(3)(C) would not apply to Issuers, as they are not organized as a for-profit business. As such, Issuers will be required to certify that they are not “businesses” for purposes of Section 4003(c)(3)(C).

### *MLF Closing Certificate*

Finally, Issuers must certify that the documents submitted to the Purchaser in connection with the closing of the Eligible Notes are identical to the draft documents submitted with their Application, other than dates, signatures and pricing details. In furtherance of this certification, the Issuer must attach redlined copies of such closing documents to the certificate.

## **Concluding Thoughts**

The Application Form, Checklist and Form Documents can be found on the Reserve Bank’s MLF website: <https://www.newyorkfed.org/markets/municipal-liquidity-facility/municipal-liquidity-facility-application>. If you have any questions regarding the requirements of the MLF, the Application or the Form Documents, please contact Neal Pandozzi at [npandozzi@apslaw.com](mailto:npandozzi@apslaw.com) or Jonathan Cabot at [jcabot@apslaw.com](mailto:jcabot@apslaw.com).

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[1] For a discussion of the MLF in general and earlier guidance from the Federal Reserve, please see our previous blogs entitled “CARES Act Support for State and Local Governments – Municipal Liquidity Facility” (“MLF Blog 1”), “Federal Reserve Releases Updated Guidance on Municipal Liquidity Facility” (“MLF Blog 2”), “Federal Reserve Releases Updated FAQs for Municipal Liquidity Facility” (“MLF Blog 3”) and “Federal Reserve Opens Municipal Liquidity Facility with Release of Notice of Interest” (“MLF Blog 4” and collectively with MLF Blog 1, MLF Blog 2 and MLF Blog 3, the “Previous MLF Blogs”), which can be found at: <https://www.apslaw.com/its-your-business/>. Readers should review the following summary of the Application and Form Documents in conjunction with the Previous MLF Blogs. Capitalized terms not otherwise defined in this blog have the meanings set forth in the Previous MLF Blogs.

[2] Previously, an “Eligible Issuer” included a state, city or county (or, subject to Federal Reserve approval, an entity that issues securities on behalf of such state, city or county), or a multi-state entity created by a Congressionally-approved compact (a “Multi-State Entity”); provided that cities and counties meet a pre-determined population threshold. On June 3, 2020, the Federal Reserve

announced a further expansion of this list to include Designated Cities, Designated Counties and Designated RBIs, as further described in this Blog under the heading “Recent Updates to Eligible Issuers.”

[3] “Eligible Notes” consist of newly-issued tax anticipation notes (“TANs”), tax and revenue anticipation notes (“TRANs”), bond anticipation notes (“BANs”), and other short-term notes.

[4] We discuss the NOI in detail in MLF Blog 4.

[5] The Term Sheet and FAQs can be found on the Federal Reserve’s website:  
<https://www.federalreserve.gov/monetarypolicy/muni.htm>,

[6] The mayor of the District of Columbia may designate one Revenue Bond Issuer for participation in the MLF.

[7] In the case of the District of Columbia, the mayor would provide such designation.

[8] Like a Multi-State Entity, (i) a Designated RBI may sell Eligible Notes to the MLF up to an aggregate amount of 20% of its gross revenues, as reported in its audited financial statements for fiscal year 2019; (ii) the Eligible Notes are expected to be parity obligations of existing debt secured by a senior lien on the revenues of the Designated RBI; (iii) the Designated RBI must have been rated at least A-/A3 as of April 8, 2020, by two or more NRSROs; (iv) if the Designated RBI met the foregoing ratings requirement as of April 8, 2020 but was subsequently downgraded, it may still participate in the MLF if it is rated at least BBB-/Baa3 by two or more NRSROs at the time the MLF purchases its Eligible Notes; and (v) if the Designated RBI was rated by only one NRSRO as of April 8, 2020, it may still participate in the MLF if: (1) the rating was at least A-/A3; (2) the Designated RBI is rated by at least two NRSROs at the time the MLF purchases its Eligible Notes; and (3) such ratings are at least BBB-/Baa3.

[9] Similar to the NOI process, only Eligible Issuers, as opposed to Designated Issuers, may submit an Application. Eligible Issuers submit the NOI and Application through BLX Group LLC, the administrative agent for the MLF.

[10] The Issuer’s Application Certification includes certifications to the effect that: (i) the information provided in the Application and NOI is true and correct; (ii) the documents submitted with the Application are in substantially final form and include the required authorization documents for the Eligible Notes; (iii) the Eligible Issuer is prepared to execute the Form Documents; (iv) the Eligible Issuer remains eligible to participate in the MLF; and (v) the issuance of the Eligible Notes satisfies the requirements of the MLF.

[11] The NRSROs are currently S&P Global Ratings, Moody’s Investors Service, Fitch Ratings and Kroll Bond Rating Agency, Inc. As noted in MLF Blog #4, Eligible Issuers must provide written evidence of their qualifying general obligation or issuer credit ratings as part of the NOI process. Eligible Issuers must also provide evidence of the existing long-term ratings on the applicable credit to be used for the Eligible Notes and, for competitive offerings, the ratings on the Eligible Notes, as of the pricing date or the date of the competitive offering, as applicable.

[12] Under the MLF, Eligible Issuers must enter into a continuing disclosure undertaking at closing consistent with the requirements of Rule 15c2-12, even if the sale of the Eligible Notes would not otherwise be subject to Rule 15c2-12. As such, the answer to this question may provide an indication of the Issuer’s likely compliance with the MLF’s continuing disclosure obligations.

[13] Although the documents listed in the Checklist itself are referred to as “final form” documents,



the opening paragraph of the Checklist and certain of the other Form Documents refer to such documents as “substantially final,” allowing for updates such as final dates, signatures, pricing details, or other changes that are satisfactory to the Purchaser.

[14] The Rule 10b-5 opinion is actually a statement of fact that, based on the counsel’s due diligence efforts, nothing has come to their attention indicating that the preliminary official statement or the final official statement contains any misstatements of material facts or any material omissions.

[15] The Purchaser will serve as a fallback purchaser of the Eligible Notes following a competitive offering where: (i) no bids were received; (ii) all bids were rejected by the Issuer; or (iii) the Issuer has awarded only a portion of the Eligible Notes to a winning bidder(s).

[16] If the preliminary official statement is not available at the time of the Application, the Eligible Issuer must provide it as soon as it is released to the public.

[17] For review purposes, Eligible Issuers are also required to provide a direct link to the financial information and operating data posted on the MSRB’s EMMA system and on the Eligible Issuer’s website.

[18] Although the Checklist is not clear on this point, depending on the relationship between the two entities, documentation relating to the Eligible Issuer and the Designated Issuer may be required in situations where a Designated Issuer is issuing the Eligible Notes.

[19] Rule 15c2-12 requires underwriters in certain municipal securities transactions to confirm that the state or local government issuing the securities has entered into an agreement to provide certain financial information and event notices regarding the securities to the MSRB on an ongoing basis.

[20] As noted in the FAQs, the Purchaser will only submit a bid in cases where the Issuer: (i) is required by law to sell Eligible Notes through a competitive sale process and (ii) is not authorized to sell Eligible Notes directly to the Purchaser, even after a competitive offering where less than all of the Eligible Notes are sold.

[21] The Purchaser will deduct the origination fee (0.10% of the principal amount of the Eligible Notes) from the purchase price of the Eligible Notes.

[22] The closing date will be a date selected by the Issuer and agreed to by BLX that is not less than five (5) nor more than seven (7) business days after the pricing (for a competitive offering) or the date of the NPA (for a direct purchase transaction).

[23] Section 6(a) of the Application Form provides a specific deadline of two (2) business days prior to pricing for Issuers to provide such evidence. Contrast the more general language used in Section 2(a) of the NPA and NPC, which states that the evidence must be received on or prior to the pricing date (for direct purchase transactions) or the date that the Issuer conducts the competitive bid process (for competitive offerings), and Section 2(b), which states that, for competitive offerings, such evidence must be received before the date the competitive bid is conducted.

[24] In light of the impact of the COVID-19 pandemic, Issuers should be mindful of the breadth of this requirement, which extends not only to financial and operational matters, but also to the Issuer’s overall condition.

[25] Under the CDU, the Annual Report consists of the Issuer’s audited financial statements or, if otherwise unavailable by the filing deadline, unaudited financial statements followed by the audited financial statements when available. The list of enumerated events set forth in the CDU is taken

from Section 5(i)(C) of Rule 15c2-12.

[26] As noted in Regulation A, an entity is “insolvent” if the entity: (i) is in bankruptcy or any other Federal or State insolvency proceeding, or (ii) was generally failing to pay undisputed debts as they became due during the 90 days preceding the issuance date of the Eligible Notes.

[27] Consistent with the requirements of Regulation A, the Issuer may consider current economic or market conditions as compared to normal economic or market conditions, in making this certification, including the inability of the Issuer to fully meet its financial needs through the capital markets. To that end, the Issuer is not required to establish that credit is unavailable, but rather that credit may be available, but at such prices or upon such terms that are inconsistent with normal market conditions.

[28] Section 4019 of the CARES Act defines “equity interest” as “(A) a share in an entity, without regard to whether the share is (i) transferable; or (ii) classified as stock or anything similar; (B) a capital or profit interest in a limited liability company or partnership; or (C) a warrant or right, other than a right to convert, to purchase, sell, or subscribe to a share or interest described in subparagraph (A) or (B), respectively.”

**Adler Pollock & Sheehan P.C.**

June 8, 2020

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## **Federal Reserve Further Modifies Eligibility for Municipal Liquidity Facility.**

The Federal Reserve expanded the Municipal Liquidity Facility (MLF) eligibility criteria on June 3, 2020 to allow more state and local governments to participate in the program. The MLF was originally established to help state and local governments respond to cash flow issues resulting from COVID-19.

### **Designated Cities and Counties**

Upon its announcement, only states, the District of Columbia, U.S. cities with a population exceeding one million residents, and U.S. counties with a population exceeding two million residents could participate in the MLF program. Subsequently, the city and county population requirements were reduced to allow cities exceeding 250,000 residents and counties exceeding 500,000 residents to participate. However, even after the reduction in population requirements, some states still only had one or zero eligible cities and counties.

The Federal Reserve’s [revised Term Sheet](#) granted governors the ability to designate up to two additional “Designated Cities and Counties.” Under the updated Term Sheet, a governor who has been given the ability to designate one Designated City or Designated County may choose either:

1. The most populous city in their state that has less than 250,000 residents; or
2. The most populous county in their state that has less than 500,000 residents.

A governor that has been given the ability to designate two Designated Cities and Designated Counties (on a combined basis) may choose any of the following combinations:

1. The most populous city and most populous county;

2. The most populous city and second-most populous city; or
3. The most populous county and second-most populous county.

Designated Cities and Counties may participate in an amount up to 20% of their own sources and utility revenues for the fiscal year 2017.

### **Designated Revenue Bond Issuers**

In addition to designating cities and counties for participation, each governor may designate up to two Revenue Bond Issuers (RBI) to participate in the MLF program. To be eligible for an RBI designation, the RBI must be a state or political subdivision thereof, or a public authority, agency, or instrumentality of a state or political subdivision thereof, that issues bonds secured by a specified source of revenue that is owned by a governmental entity. Eligible RBIs may participate in an amount up to twenty percent of the gross revenue of the RBI for fiscal year 2019.

### **Security of Obligations Issued under the MLF**

Security for notes issued under the MLF are subject to review and approval by the Federal Reserve and will depend on the applicable constitutional and statutory provisions governing the issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the issuer. To be eligible to participate, the issuer also must meet a minimum credit rating threshold as determined by the Federal Reserve. If the issuer is a state, city, or county, the notes will be expected to represent general obligations of the issuer, or be backed by tax or other specified governmental revenues. If the issuer is an authority, agency, or other entity of a state, city, or county, the issuer must either commit the credit of, or pledge revenues of, the state, city, or county, or the state, city, or county must guarantee the notes. If the issuer is an RBI, the notes will be expected to be secured by a lien on the gross or net revenues of the RBI.

Unless extended, the MLF program will expire on December 31, 2020.

**Frost Brown Todd LLC** - Michael A. Brockman, David A. Rogers, Laura H. Theilmann, Carrie J. Cecil, Scott A. Krapf and Stephen M. Sparks

June 10 2020

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## **[Second Expansion to the Federal Reserve's Municipal Lending Program: Hunton Andrews Kurth](#)**

### **Recap of Program**

In April 2020, the Federal Reserve (the “Fed”) announced the creation of a municipal lending program called the Municipal Liquidity Facility (the “MLF”).<sup>1</sup> The MLF, which became operational on May 26, 2020, is a federal loan program offering up to \$500 billion in short-term direct lending to state and local governments to help manage cash flow stresses caused by the COVID-19 pandemic. All counties with a population of at least 500,000 residents and cities with a population of at least 250,000 residents are eligible to sell short-term notes (taxable or tax-exempt) directly to the MLF. The Fed maintains a list of the eligible cities and counties based on their populations.<sup>2</sup>

### **Program Expansion**

On June 3, 2020, the Fed expanded the number of municipal entities that can access the MLF. The expanded regulations permit the governor of each state to designate up to two Revenue Bond Issuers located within such state (“Designated RBIs”) for participation in the MLF. The Designated RBIs may be a state, political subdivision or a public authority, agency, or instrumentality thereof that issues bonds that are secured by revenue from a specified source that is owned by a governmental entity (such as public transit, airports, toll facilities and utilities). In addition to Designated RBIs, other governmental entities that provide essential public services on behalf of an eligible state, city, or county may participate in the MLF by borrowing through an eligible issuer.

Also under the expanded regulations, each state is now guaranteed a minimum of two “population-based” issuers. States which do not have cities/counties that meet the population thresholds are now eligible, by governor designation, to select the two most populous cities or counties to utilize the MLF. Non-qualifying cities and counties are also encouraged to utilize the MLF indirectly by borrowing through a qualifying entity.

Pursuant to the MLF’s purchasing guidelines, an eligible issuer may (i) sell notes directly to the MLF, or (ii) conduct a competitive sale process in conjunction with a direct sale to the MLF. Under the competitive sale model, the MLF will serve as a backstop and agree to purchase notes that are not awarded to other bidders. The MLF will agree to purchase the notes at a price determined by the MLF’s pricing model found [here](#).

The MLF is currently operational. Any eligible issuer that wishes to utilize the MLF should complete a “Notice of Interest” application found [here](#). Among other requirements:

- Eligible state, county or city issuers must have an investment grade rating (BBB-/Baa3) as of April 8, 2020, from at least two nationally recognized rating agencies.
- Designated RBIs must have an investment grade rating of A-/A3 as of April 8, 2020, from at least two nationally recognized rating agencies.
- Designated RBIs must provide the following in order to qualify:

1) At the time it submits a Notice of Interest application, evidence that its status of “Designated RBI” has been verified with the governor; and

2) At the time of the note sale, a certification from the governor reflecting its designation.

- Eligible issuers must provide a written certification that they are unable to secure adequate credit accommodations from other banking institutions and that they are not insolvent. In making this certification, issuers may consider economic or market conditions intended to be addressed by the MLF as compared to normal market conditions, including the availability and price of credit.<sup>3</sup> Issuers should consider consulting with their financial advisors regarding the terms of the MLF and the comparability and viability of alternative credit accommodations.
- Eligible issuers must deliver standard legal opinions for the issuance of debt, including, but not limited to, an opinion of nationally recognized bond counsel as to the validity, enforceability and binding nature of the notes.
- The termination date for the MLF is December 31, 2020.

To view all formatting for this article (eg, tables, footnotes), please access the original [here](#).

**Hunton Andrews Kurth LLP** – Martha A. Warthen, Ryan M. Bledsaw, Andrew R. Kintzinger, Christopher G. Kulp, Darren C. McHugh, Douglass P. Selby, Caryl Greenberg Smith, Brendan M. Staley, Yeshake, Audra L. Herrera, Thomas A. Sage, Benjamin Vernon, Clayton T. Holland, William H. McBride, Samantha Gilley Rachlin and Adam Midkiff

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## **States Contemplate Borrowing to Help Manage Pandemic's Fiscal Impact**

### **Short-term financing, Federal Reserve program may buy time, but budgets will need adjusting**

As Illinois lawmakers in May considered a budget for the fiscal year that starts July 1, they already faced an estimated \$7 billion combined revenue shortfall for fiscal 2020 and 2021, in large part attributable to the COVID-19 pandemic. To help close that gap, the General Assembly adopted a spending plan premised on borrowing up to \$4.5 billion from the Federal Reserve's new Municipal Liquidity Facility (MLF)—with the hope that the state will be able to repay those funds with federal budget aid not yet approved by Congress. On June 2, the state announced an initial \$1.2 billion of borrowing from the MLF.

Although it is not clear whether federal aid targeted to help states will materialize, the plan illustrates the measures policymakers are considering in response to an unprecedented dive in tax revenue and new demands on spending. Borrowing could help, but it would be only one component in a broader strategy that will require other budget adjustments.

States generally have two options for borrowing money: long-term bonds and short-term notes.

Long-term bonds mainly finance long-lived infrastructure projects. They are often repaid over years or decades and represent the vast majority of municipal debt.

Short-term borrowing most commonly takes the form of "anticipation notes." These are used to manage cash flow because tax revenue tends to arrive in periodic large amounts while spending demands are spread throughout the year.

States face challenges and limitations using either approach to respond to fiscal emergencies such as those caused by the coronavirus. Creating a long-term liability—as with bonding—to pay for immediate, short-term operating costs is generally considered unsound practice, with potentially negative credit rating implications. Some governments constitutionally or statutorily prohibit it.

Short-term anticipation notes can help states address revenue delays, such as those created by moving the tax filing deadline to July 15 this year. But they are not a budget solution. Anticipation notes require sufficient future revenue to borrow against; however, states will probably have few uncommitted income streams that they can use to fill new, unexpected budget gaps.

Moreover, states usually require that anticipation notes be repaid within 12 months or by the close of the fiscal year. Rhode Island's constitution, for example, stipulates the latter. This means that notes issued to meet current costs may need to be paid back too soon to make a difference in closing the gap.

And neither short- nor long-term borrowing can solve the harder problem of dramatic revenue declines driven by an economic downturn. Ultimately, balancing state budgets will require longer-term solutions such as spending cuts, tax increases, drawing on rainy day funds, or federal aid. Borrowing can provide immediate cash and buy time to make those decisions but will have to be repaid with interest.

Despite the limitations of borrowing, the current crisis presents such a challenge to state finances that policymakers will likely need to employ a range of tools to weather the storm. Although state rainy day funds, on average, are in better shape now than going into the Great Recession, they will not be enough for most states. Borrowing then may need to be one part of a package of state budget and policy responses.

This time, there is also a new borrowing option for policymakers to consider. In response to unprecedented turmoil in the municipal bond market in March linked to the pandemic, the Federal Reserve announced a plan to purchase up to \$500 billion worth of short-term debt from state and local governments through the newly created MLF.

The program will purchase notes directly from all 50 states, counties exceeding 500,000 residents, and cities with more than 250,000. In states with no counties or cities meeting those requirements, governors can designate up to one county and one city to participate. Borrowers can use the funds to help manage revenue delays and declines as well as increased expenses linked to the pandemic, or to lend to governments that don't meet the size restrictions. The total note size is limited to 20% of the borrower's 2017 own-source revenue.

In addition, the MLF can purchase notes with maturities of up to three years, longer than typical anticipation notes. That could provide policymakers with more time to decide on sustainable budget solutions—without creating an obligation that weighs on budgets many years into the future, such as with long-term bonds. However, in order to benefit, some states would have to modify their rules to allow borrowing for operating expenses for this length of time.

Borrowing costs could play an important role in determining whether governments will take advantage of the MLF. The Fed requires prospective borrowers to certify that interest rates demanded by the market are higher than normal. After a turbulent March, the muni market stabilized and yields dropped to more ordinary levels, meaning states might not currently meet the requirement.

Further, the laws governing the Fed require it to charge borrowers a “penalty rate” above the typical market rates seen in normal circumstances. This rule is intended to ensure that would-be borrowers turn to the MLF only as a last resort when market rates are substantively above normal. In that event the program might provide a cheaper borrowing opportunity, but until then states may hesitate to tap into the facility.

The Fed has unveiled MLF details on a rolling basis, with additional clarifications and changes still possible. Despite that uncertainty, the significant fiscal challenges that states face because of the pandemic make it likely that policymakers will consider borrowing, whether from the MLF or the market. Understanding the trade-offs of the various options will help them make sound budget decisions.

Jeff Chapman is a director, Adam Levin is a principal associate, and Mark Robyn is a senior officer with The Pew Charitable Trusts' state fiscal health initiative.

## **The Pew Charitable Trusts**

By: Jeff Chapman, Adam Levin & Mark Robyn

June 9, 2020

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## **Cities Prepared for Rainy Days, but Not a Fiscal Tsunami.**

As the pandemic-induced economic downturn continues, cities are facing immediate, significant and irreplaceable losses to major revenue streams. NLC estimates that cities will experience a \$360 billion budget shortfall over the next three years.

The question, of course, quickly turns to are cities prepared to weather a fiscal storm this severe?

One critical way to assess fiscal preparedness is levels of General Fund ending balances (also called reserves or rainy-day funds). To better understand the fiscal position of cities, we analyze city ending balances as a percentage of General Fund expenditures.

[Continue reading.](#)

### **National League of Cities**

by NLC Staff

June 8, 2020

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## **Biden Calls for More Federal Aid For Cash-Strapped Governments.**

Joe Biden said Congress should increase aid to state and local governments to preserve the jobs of first responders and other government workers and to make sure Americans can return to work safely.

Biden, the presumptive Democratic presidential nominee, emphasized the need for aid to state and local governments on a conference call with members of the American Federation of State, County and Municipal Employees, a trade union. The economic shutdown triggered by the coronavirus pandemic has devastated municipal budgets across the country, forcing governments to ask for additional federal aid.

"I've called on Congress to increase the funding states have," Biden said on the call. "This isn't an exercise in mathematics. The Republican Senate needs to do its job."

States alone could see \$765 billion in budget shortfalls over the next three years, according to projections made by the Center on Budget and Policy Priorities. Cities are expected to see another \$360 billion in revenue losses through 2022, according to the National League of Cities. Because states and cities are almost always required to balance their budgets, the shortfalls could result in jobs cuts or reductions in public services.

House Democrats led by Nancy Pelosi passed a \$3 trillion package that devoted about one third of that as direct aid to states and localities. The bill has stalled in the Senate. So far, no direct money has been provided to localities aside from an allocation in the first stimulus package that gave them funds to spend only on virus-related expenses.

Public sector job cuts are already happening. The number of workers on state and local government payrolls fell by 571,000 to 18.3 million in May, pushing the number of job losses to about 1.5 million over the past two months, roughly twice as many as were ushered in after the last economic

contraction over a decade ago.

## **Bloomberg Politics**

By Fola Akinnibi and Danielle Moran

June 12, 2020, 12:25 PM PDT

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### **[S&P: How Artificial Intelligence Technologies Are Changing U.S. Public Finance](#)**

#### **Key Takeaways**

- The application of deep learning and generalized AI is still emerging in some U.S. public finance sectors such as local government, but has advanced in other sectors such as health care.
- There are several purposes of AI in the public finance space, including: reducing expenditures, alternative data pattern recognition, and public investment.
- State transportation agencies and health care entities are at the forefront of adopting AI in public finance.
- Many governments are using AI and machine learning to help address their cybersecurity needs.

[Continue reading.](#)

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### **[Future of Airport Debt in the Midst of Travel Restrictions Around the World.](#)**

**The constant fear of COVID-19 and the uncertainty about the longevity of its financial impacts has shaken the world to new realities.**

One of the very first sectors to be impacted was the airline and tourism sector around the world. As more and more countries assimilated to the reality of COVID-19 and how the coronavirus spreads, they started to impose serious travel restriction that were then adopted worldwide. Furthermore, people were already skeptical about traveling which worsened the overall impact on the travel and airline industry.

In this article, we will take a closer look at how airports around the world are coping with the new reality of minimal travel and the struggle to generate revenue to maintain their operations. Furthermore, what does this mean for municipal debt secured by these revenue sources that have now been slashed and their forecast looks grim?

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Jun 10, 2020



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## **S&P: U.S. Oil-Producing States Dealt Double Blow From Price Collapse And COVID-19**

### **Key Takeaways**

- The double blow of a collapse in oil prices and the COVID-19-induced recession will likely have an outsized economic effect in oil-producing states compared to the rest of the country.
- U.S. oil-producing states are entering a new period of credit deterioration not unlike what occurred in mid-2015 after the last price rout.
- Over the past five years, various budgetary management techniques prevented more significant credit deterioration among oil-producing states.
- Any sharp pull-back in oil exploration and production will likely inflict considerable strain on oil-producing state economies and revenues.

[Continue reading.](#)

8 Jun, 2020

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## **Federal Legislative Proposals at a Crossroads? - Ballard Spahr**

Surface transportation has been a topic of federal policy consideration in recent weeks. The U.S. House of Representatives floated a partisan, large transportation bill, while the U.S. Senate continues to advocate for a bipartisan surface transportation-heavy bill. The Trump administration, meanwhile, focused largely upon removing ostensible project delivery impediments. There's been a flurry of activity, yet no clear sign of the compromise.

On June 3, 2020, the House Transportation Committee unveiled the full text of its Investing in a New Vision for the Environment and Surface Transportation in America (INVEST in America) Act. The proposed legislation provides for \$494 billion in spending over a five-year period to modernize existing infrastructure, fund new infrastructure projects, and increase funding for related government programs. The proposal would direct \$319 billion to the Federal Highway Administration's Federal-Aid Highway Program, \$105 billion to the Federal Transit Administration, and \$60 billion to various governmental recipients with the aim of improving intercity railway infrastructure.

The INVEST in America Act places particular emphasis on modernizing and improving the weatherization of existing roads and bridges, with \$6.25 billion apportioned for a newly created natural disaster mitigation program aimed at bolstering long-term resilience of existing infrastructure. Mitigation of climate change is also a central aspect of the legislation through measures such as an \$8.4 billion carbon reduction program, \$1.8 billion in funds for low-emission vehicle infrastructure, and an increase in funding to public transit agencies, including a \$958 million increase in the base authorization of FTA's Capital Investment Grants program. Transportation safety programs would also see funding increases, with the National Highway Traffic Safety Administration and Federal Motor Carrier Safety Administration authorized for \$5.3 billion and \$4.6 billion in funds, respectively. Where the bill doesn't appear to turn to public-private partnership (P3) approaches outright to these projects, it is clear that P3s are available and certainly not precluded.

The full text of the INVEST in America Act can be found [here](#).

In the Senate, Environment and Public Works Committee (EPW Committee) Chairman John Barrasso (R-Wyoming) has continued to push for passage of the America's Transportation Infrastructure Act (ATIA), a bipartisan effort which passed the EPW Committee by a unanimous vote in July 2019. ATIA would authorize \$287 billion in spending from the Highway Trust Fund over a five-year period with a primary focus on road and bridge maintenance. The proposed legislation also aims to streamline project delivery by establishing a two-year target for completion of environmental reviews relating to highway projects and a 90-day target for issuance of subsequent related project authorizations. The full text of ATIA can be found [here](#).

Elsewhere, in response to the COVID-19 pandemic, on June 4, 2020, President Trump issued an Executive Order on Accelerating the Nation's Economic Recovery from the COVID-19 Emergency by Expediting Infrastructure Investments and Other Activities (6/4 EO). The 6/4 EO provides broad direction to federal agencies administering infrastructure projects to "...take all reasonable measures to speed infrastructure investments and to speed other actions in addition to such investments that will strengthen the economy and return Americans to work, while providing appropriate protection for public health and safety, natural resources, and the environment, as required by law." The 6/4 EO also requires applicable federal agencies to review the National Environmental Policy Act, the Endangered Species Act, and the Clean Water Act, and identify any actions which may be taken thereunder in furtherance of economic recovery. The full text of the 6/4 EO can be found [here](#).

Any of the strategies—the House's rail/transit-heavy strategy, the Senate's repair and preserve strategy, and the White House's expedited delivery strategy (shared with the Senate)—acknowledge the need to establish and implement an infrastructure and transportation public policy. President Trump has been promising a \$1 trillion infrastructure plan since his 2016 campaign, although not much progress has been made. With the September expiration of the FAST Act—the last comprehensive federal transportation bill signed into law—the time is now.

Although the release of respective transportation infrastructure bills by the House Transportation Committee and Senate EPW Committee should serve as an important starting point for negotiations between the two chambers, observers caution that the November election and an anticipated focus on short-term funding measures in response to the COVID-19 pandemic make passage of a comprehensive infrastructure bill unlikely in 2020. But collectively, they do appear to mark the spaces and approaches favored by the political parties, and depending on the results of the November elections, which direction transportation public policy will likely proceed.

Attorneys in [Ballard Spahr's P3/Infrastructure Group](#) routinely monitor and report on new developments in federal and state infrastructure programs related to transportation and other types of projects.

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June 10, 2020

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## **Wall Street Risk Analysts Rise in the Muni Bond Market.**

- **Credit analysis returns as slowdown hits almost every sector**
- **Prices revived, but financial toll may not be known for months**

Don't be fooled by the market's calm: these are hectic times for Wall Street's municipal-bond analysts.

The \$3.9 trillion state and local government debt market, typically the safest of havens, has suddenly become one where assessing risk matters again, thanks to the economic wreckage wrought by the pandemic.

Since the nation went virtually overnight from a record-setting expansion to the worst recession in decades, analysts at investment firms have been sifting through a wave of bond documents, disclosures and data from governments, city agencies, universities, hospitals, public transit authorities and nursing homes.

The challenge is to figure out what's still a safe investment bet. That's a difficult feat considering there's no clear way to predict how it will keep affecting American life and the worst of the financial effects typically don't show up until well after a contraction begins.

At DWS Group, an investment firm, six full-time municipal credit analysts are working closely with portfolio managers and traders there, attending two team calls a day to discuss trades and sector trends. "They're busy," said Ashton Goodfield, who leads the municipal department.

The municipal market, used by some 50,000 issuers, has gone through a period of unprecedented volatility. In March, investors pulled record amounts out of mutual funds, triggering a steep rout and moves by the Federal Reserve to stabilize the market. Since then, prices have essentially recovered, raising the possibility that the financial impacts of the slowdown have been too deeply discounted.

At Franklin Templeton, the firm's new head of municipal debt investing, Ben Barber, is also focusing on risk analysis. The firm has more than a dozen credit analysts that have dedicated sector focuses like student housing and tobacco-settlement backed bonds. Tom Walsh leads the company's municipal credit research effort.

Credit research is "very near and dear to my heart," Barber said.

Barber started his career as an analyst covering the classic segment of the muni market, states and local governments. He said he still views municipalities positively despite their shutdown-related budget deficits, given that they have tools at their disposal like raising taxes.

The DWS research team has been looking for bonds at risk as well as those that are showing strength, Goodfield said. That way, she said, "if we want to sell something we think is showing weakness, we know where to go with that money, we know what to replace it with."

Defaults have remained relatively rare compared with other markets, though they've started to rise.

In a note to clients last week, Municipal Market Analytics said at least 29 borrowers became impaired in May, which includes defaults and steps like tapping reserves to avoid them. That's the most since December 2014, according to MMA.

Goodfield said that it's hard to generalize both positively or negatively about the plethora of industries that tap the muni market. For the most part, though, the firm is cautious on high-yield deals that were sold for ventures that seek to make novel products from waste. One such deal for a California project to turn rice waste into fiberboard skipped bond payments in June.

Issuers have been uploading so-called continuing disclosures online that give details to investors on how their business is faring. The volume of those rose nearly 13% in the week ended June 7, [according to](#) the Municipal Securities Rulemaking Board.

The increase of information is welcome in a market where issuers are notoriously slow to post financial updates.

Yet some of the filings are more detailed than others. Take Foley, Alabama, which included a [big caveat](#) for bond analysts: "This information is subject to change without notice."

## **Bloomberg Markets**

By Amanda Albright

June 9, 2020, 10:30 AM PDT

— *With assistance by Danielle Moran*

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## **[Investors Are in a Race to Find the Best Models of Climate Risk.](#)**

### **Nobody wants their assets to wind up underwater in 20 years.**

Sustainable finance is having a reasonably good pandemic. Environmental themed funds have had fewer outflows, and companies with better environmental, social, and governance ratings have tended to fare more lucratively than their peers.

It makes sense on an intuitive level. The pandemic reminds us of the fragility and importance of the physical world, and also of the threat of sudden, non-linear risks. This has dramatically accelerated the emergence of a hot new finance trend: assessing how potential climate change outcomes such as rising sea levels or heatwaves might affect the performance of an investment.

"Physical risk" or "climate impact risk" used to be a niche concern, mostly consisting of bespoke analysis for companies big investments in massive infrastructure. (This category includes, ironically, oil companies.) That's changed quickly. Scientists have spent decades refining models of the Earth's climate, and financial institutions—increasingly conscious that the effects of climate change are already costing them money—want to use sophisticated tools to get an edge on understanding their level of exposure in the years to come.

There's now an array of companies offering portfolio-wide assessments of physical climate risks, ranging from specialist startups to mid-sized sustainability consultancies to shops within the big global advisory firms. The idea has become so popular, it's now tough to find a consultancy in the

financial services sector that *isn't* offering some kind of physical risk analysis. Some investment managers such as BlackRock are even developing their own capabilities in-house as a service for clients.

That said, there's a steep learning curve with assessing physical climate risk. In the last two years there have been around a dozen guides published by investor networks, consultancies, and research institutions that aim to walk financial institutions through the process. The most recent is from the London-based Institutional Investor Group on Climate Change, published in late May. It advises, for example, that investors not rely on disclosures of physical risks from an investee itself, as most of the reports published by companies don't contain "decision useful information" for investors.

In other words, those sophisticated climate risk maps now starting to appear in company reports are pretty worthless.

Exploring the risks yourself may be the best option, and like many similar guides, IIGCC's lays out a detailed process. This includes figuring out which climate-related hazards you're analyzing—wildfires? flooding? extreme heat?—and how far into the future you're looking—a few years? several decades?—and where the physical assets and supply chains you're interested in are located. You need to identify what you're concerned about: A threshold temperature beyond which facilities—or people—might be unable to function properly? The level of storm surge that could ruin a municipality's sewage system?

The next step is to actually overlay the data about expected climate change. This is where it gets into really niche expertise.

The data from climate models is hard to access, let alone interpret and apply in a context like finance. This is where those consultants could help—but that too, raises a whole new set of pitfalls. The IIGCC report cautions against consultants who use "black box" approaches, where the method for generating an estimate is opaque or proprietary. Without deep knowledge of the models, how do you believe a colleague, consultant, or an investment manager telling you that a swathe of real estate will be fine (or doomed) in 20 years?

IIGCC also recommends taking care to understand the limitations of the work that's being done. One such limitation is "downscaling," or the practice of breaking down the large gridded squares of climate models into smaller, seemingly more precise chunks. Scientists who work with climate models warn that apparent granularity can be worse than illusory and give an even less accurate view of what's at stake.

The simple answer to all of this is: standards. Rely on scientists set out what can and can't be done and develop a clear, shared terminology that makes sense to non-specialists. As with most things about climate change, though, it's not at all easy. Almost two years ago I was involved in kicking off a process to do exactly this in Australia. Only now, after much hard work from numerous experts and practitioners, is that nearing the point of delivering actual recommendations.

One other important thing to remember: these are just the teething pains of an emerging industry in which both buyers and sellers are motivated to find a solution. An infinitely thornier question is what will be done with this information. Selling to a greater fool is one option; investing in "resilience" to protect an at-risk asset is another. KMPG published a [case study](#) last month pointing out that a 4 degrees Celsius average annual temperature increase could mean days as hot as 60 degrees C (140 degrees Fahrenheit) in some places.

The authors raise good points about heat extremes, and also about unforeseen second order effects.

The resulting lack of travel, for instance, might harm the revenues for a toll road operator. But it's hard to imagine who, in such a scenario, would be lucky enough to be primarily concerned about revenues.

## **Bloomberg Green**

by Kate Mackenzie

June 12, 2020

*Kate Mackenzie writes the Stranded Assets column for Bloomberg Green. She advises organizations working to limit climate change to the Paris Agreement goals. Follow her on Twitter: @kmac. This column does not necessarily reflect the opinion of Bloomberg LP and its owners.*

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### **Dual Threats: COVID and Climate Change**

The pandemic has intensified existing stresses on U.S. state and municipal economies – with implications for investors.

The COVID-19 pandemic is exhausting local finances and may impact growth trajectories for years to come. As of mid-April, states and municipalities will need at least \$500 billion in aid to shore up balance sheets as demand for services intensifies and tax revenue plummets, according to the National Governors Association. At the same time, hurricane season – and the economic havoc it wreaks – is officially upon us.

To understand the implications of this dual threat, we have combined our local economic coronavirus impact modeling with our climate change risk assessments. We find, regrettably, that:

Hurricane damage is expected to produce a negative local GDP impact along the Gulf Coast and Atlantic Basin ranging up to 1.9% annualized GDP loss over the decade.

Some of the regions hardest hit by the pandemic may also have the greatest exposure to hurricane risk and costs from wind and flooding damage. For example, we estimate Miami-Dade County with a joint COVID/Climate annualized loss of 2.6% to 2030

Even those counties with relatively muted GDP impacts from COVID may face more significant losses after factoring in climate risks

As investors navigate the uncharted waters of COVID-19 and look ahead, we recommend that they, too, bear in mind this dual threat of climate change.

[Continue reading.](#)

## **BlackRock**

Written by

Amit Madaan, CFA, FRM

Director, BlackRock Financial Modeling Group

Michael Kent

Vice President, BlackRock Sustainable Investing



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## **Municipal Borrowers Prepare for New Issuance Surge as CUSIP Request Volume Climbs for Second Straight Month.**

NEW YORK, June 15, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for May 2020. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant surge in request volume for new municipal identifiers and a significant decline in request for new corporate debt identifiers.

CUSIP identifier requests for the broad category of U.S.- and Canada-issued equity and debt totaled 4,325 in May, down 31.9% from last month. On a year-over-year basis, corporate CUSIP requests were up 23.8%. The May 2020 monthly volume declines were focused in U.S. corporate debt, which fell 43.4%, U.S. corporate equity, which was down 12.7% and certificates of deposit with maturities greater than one year, which saw a 39.9% month-over-month slowdown.

Municipal CUSIP request volume increased sharply in April for the second straight month. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – climbed 53.1% versus April totals. This comes on top of a 12.3% increase the previous month. On an annualized basis, municipal ID request volumes are up 10.6% through May.

“If there was ever any doubt about the ability of municipal bond issuers to access liquidity during the COVID-19 pandemic, our CUSIP Issuance Trends indicator is sending a clear signal that municipalities are putting the pieces in place for a surge in new issuance volume in the weeks and months to come,” said Gerard Faulkner, Director of Operations for CGS. “The corporate market is telling a different story, however. With corporate CUSIP request volume slowing significantly in May, we may be seeing early signs of a slowdown in corporate debt issuance.”

Requests for international equity and debt CUSIPs both grew in May. International equity CUSIP requests were up in May and up 41.2% on a year-over-year basis. International debt CUSIPs increased 27.3% on a monthly basis and 2.0% on a year-over-year basis.

To view the full CUSIP Issuance Trends report for May, [click here](#).

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## **Where Are Munis Getting Their Money?**

### **Summary**

- The coronavirus-induced recession comes on the heels of a period of strong growth in revenues enabled by improved economic activity and better fiscal and budgetary balance by municipal governments.
- In addition, given the severe effects of the shutdown on revenues and the increased expenses municipalities face to combat the virus and increase social service spending, the federal government has sought to provide some relief. The Municipal Liquidity Facility (MLF) is one such new Fed program.

- The MLF and other federal stimulus and programs have already lent some stability to the market and will allow market access to those states and issuers needing additional borrowing.

[Continue reading.](#)

## Seeking Alpha

by David Kotok

Chief Investment Officer, Wealth Preservation, portfolio strategy

Cumberland Advisors

Jun. 9, 2020

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### **Risky Munis Shrug Off Recession in Biggest Rally Since 2009.**

- **High-yield muni bonds have surged 7.8% since start of April**
- **Federal Reserve's muni lending program improved sentiment**

To judge by the municipal junk-bond market, it would seem like the economic collapse is already over.

High-yield state and local government debt, the most susceptible to defaulting during a sustained slowdown, have returned 7.8% since April 1, putting them on track for the biggest quarterly jump since the end of the Great Recession in 2009.

The rally tracks the broader optimism on display in American financial market that has also lifted stocks and corporate bonds. It signals speculation by investors that even the riskiest borrowers in the \$3.9 trillion municipal-securities market are likely to weather the fallout of the coronavirus shutdown that sent unemployment surging, shut businesses and decimated the tax collections of local governments.

Initial fears about the toll prompted investors to pull record amounts out of municipal-debt mutual funds in March, before the Federal Reserve revived confidence by promising to extend short-term loans to governments to head off another liquidity crisis.

"While that didn't apply to high yield in the muni market, what it did do is give people confidence that munis in general weren't all going to default," said Lyle Fitterer, co-head of municipal investments at Baird Advisors, which manages \$6 billion of state and local debt. "You saw cash flows from retail investors finally turn around and turn positive."

Prices on some bonds that were hit the hardest in March are coming back, such as tobacco-settlement backed bonds. Ohio's Buckeye Tobacco Settlement Financing Authority debt maturing in 2055 with a 5% coupon traded Wednesday at 105 cents on the dollar, up from an average 73.2 cents on March 23, according to data compiled by Bloomberg.

The gain for high-yield municipals in the past 10 weeks follows a 6.9% drop in the first quarter of 2020, according to Bloomberg Barclays Indexes. The last time the sector jumped more in a single quarter was during the three months ending September 30, 2009, right after the formal end of the last recession, when high-yield munis gained 13.6%.



The full economic impact of the shutdowns has likely yet to be felt by many governments and the projects that have been financed in the municipal market, since they have the ability to draw on reserves and tax collections take months to fully reflect a downturn.

"It's going to take a long time for the economy to recover," Fitterer said.

"You're going to see more debt-service reserve draws. You're going to see more technical defaults. And longer term, it'll lead into more actual defaults," he said. "Temporarily, people have forgotten about that."

## **Bloomberg Markets**

By Michelle Kaske

June 10, 2020, 11:03 AM PDT Updated on June 10, 2020, 12:14 PM PDT

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### **[The Fed's State and Municipal Lending Is a Bad Idea](#)**

The COVID-19 pandemic has caused sweeping changes in economics and politics. Many have been publicly analyzed and debated. But not all. In particular, the Federal Reserve's extraordinary new policies haven't received the scrutiny they deserve. Totalling a planned \$2.3 trillion in asset purchases and loans, the Fed's actions take monetary policy into uncharted territory. Although effective at stabilizing markets in the short term, Fed policy comes with significant long-term costs.

Case in point is the Fed's Municipal Liquidity Facility. Authorized by Congress under the CARES Act, this facility is intended to help "governments better manage cash flow pressures in order to continue to serve households and businesses in their communities." Through the Municipal Liquidity Facility, the Fed makes direct loans to state and local governments, purchasing up to \$500 billion in debt. This represents a significant expansion of the Fed's emergency lending powers, as specified in Section 13(3) of the Federal Reserve Act. Traditionally, the Fed only extended emergency credit to non-banks in the event of serious distress in the financial system. While state and local government finances are important, it is very hard to make the case that they are an integral component of financial stability.

This expansion of the Fed's mandate comes with serious consequences. Many of them are bad.

First, the Fed's municipal and state lending results in a misallocation of credit. The whole point of the Fed's programs is that state and local governments can get loans on better terms than they could get elsewhere. This reallocates purchasing power away from other entities in the market to those whose bonds the Fed purchases. The cost to society is the difference between the value of the projects pursued by state and local government with those resources and the value of the projects other entities could have pursued with those same resources.

Second, Fed lending undermines fiscal federalism. History's greatest political minds, including the framers of the U.S. Constitution, regarded the "power of the purse" as the most significant government power. It's the political version of the Golden Rule: He who has the gold, makes the rules. For state and local governments, citizens within those jurisdictions are supposed to bear the costs of providing collective goods, such as emergency services and infrastructure. But the Fed's new programs set a troubling precedent: State and local governments can turn to central bankers for the funding they need. While governments could always borrow from those outside their

jurisdiction, the Fed is special. Its monopoly on high-powered money production gives it greater financial wiggle room than other funding sources. As a result, governments will become more dependent on Fed loans, and less responsive to voters.

Third, there is a very real risk Congress will hijack the Fed and turn it into a de facto fiscal policy agent. There are signs that this is already happening. Sen. Charles Schumer (D-N.Y.) recently urged the Fed to grant New York's Metropolitan Transportation Authority (MTA) access to the Municipal Liquidity Facility. The Fed expanded the criteria for accessing the facility, allowing MTA and several others to take part. Due to the change in Fed policies created by the CARES Act, Congress has an incentive to use the Fed to make spending and budgeting decisions in ways that lack democratic oversight.

Markets are recovering from state-level lockdowns. Unemployment is falling. The stock market is rallying. The Fed's new policies undoubtedly helped. But in this case, the cure may be worse than the disease. The Fed's actions impede market allocation of resources, weaken the accountability of local governments and present new avenues for political capture by Congress.

Unless we address these problems soon, we risk the Fed becoming permanently ineffective and unaccountable. If this happens, the next time economic trouble comes knocking, the Fed won't be able to help us.

THE HILL

BY ALEXANDER WILLIAM SALTER, OPINION CONTRIBUTOR — 06/12/20

THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

*Alexander William Salter is an economics professor in the Rawls College of Business at Texas Tech University, the Comparative Economics Research Fellow at TTU's Free Market Institute, and a senior fellow with the Sound Money Project. Follow him on Twitter @alexwsalter.*

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## **[Optimize Community QE - An Open Letter To Fed Chairman Powell](#)**

Regular readers of these pages will know that we regularly report on new developments in connection with the Fed's nascent and potentially 'game-changing' Municipal Liquidity Facility (MLF), or Community QE. Thus far the trajectory of change since the MLF's introduction in early April has been in the direction of progressive liberalization. State and municipal eligibility criteria have loosened, eligible bond maturities have lengthened, and the date of the new window's closing has been postponed.

There nevertheless remain a number of MLF features that are fundamentally incompatible with the Facility's purposes. Conspicuous among these are the Facility's rate and rating requirements, several of its still overly narrow eligibility criteria, and its being housed in the New York Fed alone rather than being distributed over all of the regional Federal Reserve Banks (FRBs).

The first and third sets of flaws register a simple category error, in that they mistakenly treat States and their Subdivisions as though they were speculative Wall Street financial institutions that have gotten themselves into trouble, rather than de facto federal agencies taking the lead role in addressing the Covid pandemic across our entire continental republic. The second set of flaws sound

more in degree than in kind – they simply screen out, notwithstanding their gradual liberalization since April, too many de facto federal instrumentalities for which the Facility is meant to provide federal funding.

[Continue reading.](#)

## **Forbes**

by Robert Hockett

Jun 14, 2020

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### **Five Reasons Municipals Have Rarely Defaulted.**

Default rates by municipal bond issuers have been remarkably low over the years. It's an impressive track record, and it explains why defaults by municipal issuers Puerto Rico and Detroit have made front-page news when they happen—they're actually quite rare.

Since 1970, the 10-year cumulative default rate for investment-grade municipal bonds has been 0.1% (Display). Comparing muni default rates with those of investment-grade corporate bonds, which have defaulted at a rate of 2.3%, reinforces the reliability of municipal bonds.

Why is municipal-bond quality so high—and defaults so infrequent? We can find the answer by drilling into the tenets of fundamental analysis: understanding the quality and predictability of a bond's cash flows and the attributes of bond issuers that make investors more confident that they can deliver.

Here's a closer look at five reasons that muni defaults are rare:

#### **1) Security: Muni Issuers Have the Power to Raise Taxes and Fees**

The two principal types of municipal debt, general obligation (GO) and revenue, have traits that better equip them to deliver steady cash flows.

GO muni bonds are backstopped by the "full faith and credit" of the issuing government. Whether a GO funds schools, transportation infrastructure or other essentials, the issuer typically has the power to raise taxes to make bond payments. Many states and municipalities need voters' approval even to issue GOs, and they can't declare bankruptcy—even in a crisis. In the private sector, most companies can't claim that type of customer backing or pricing flexibility.

Revenue bonds are backed by fees from public-service enterprises like utilities, toll roads and airports. Those fees are pledged to service debt, and in tough times, issuers can raise user fees to make debt payments. Most tax-exempt revenue bonds are at the top of an enterprise's capital structure. Typical issues include safety provisions like requirements to set rates in excess of budgeted expenses, restrictions on issuing more debt and requirements to fund reserves to cover unexpected events.

Compare a municipal-owned electric utility with one that's privately owned. Given all the protections in the bond issue, publicly owned utilities can set their own rates. Privately owned utilities, on the other hand, need permission from an independent oversight regulatory commission.

## **2) Cash Flow: A Steady and Reliable Revenue Engine**

Municipalities' power to tax or charge for public services translates into a reliable revenue engine that yields reliable, quality cash flows.

Taxes, for example, are applied across a diverse base of earnings and property values. This creates a steady revenue stream for GO municipal issuers that's very different from that of a corporate issuer dependent on discretionary spending. If one sector of the economy is hard hit in a recession, other sectors may be less so, allowing the core of the muni issuer's revenue stream to stay relatively steady.

In the current recession, muni credits are generally weaker, but default is still a distant risk, in our view. Tax revenues (income, sales and property) and user fees from essential services keep coming and remain diverse. That's very different from the private sector: when airline usage shrivels or people stop buying cars, companies' revenue streams dry up.

## **3) Reserve Funds: Flexibility to Navigate Economic Storms**

In a recession, cash is king, and states entered this economic crisis with record-level cash reserves—thanks to mandated-reserves requirements. Both GO and revenue bonds benefit from an embedded culture and legal structure that favors robust reserve funds to weather downturns. As we described earlier, many revenue bonds include mandates for specific cash-reserve levels.

For GO bonds, it's important to understand how municipalities handle their general fund budgets. We've just seen the longest economic expansion on record. What did governments do with these robust tax receipts? For the most part, they added to their rainy-day reserve funds (Display), which helped states and municipalities endure crises without defaulting.

Municipalities have a budgeting advantage over corporations that have to balance bondholder and shareholder interests. Bond investors want cash held in reserve as an added cushion; shareholders want it distributed as dividends. Because municipalities don't have shareholders to satisfy, they're free to build reserves when times are good. Stronger reserves mean more wherewithal to avoid missing bond payments during downturns while waiting for revenues to rebound.

## **4) Principal Repayment: Pay as You Go Reduces Debt and Refinancing Risk**

Municipal bonds' repayment structures are typically like those of home mortgages—scheduled payments include a mix of interest and principal repayment. As a result, the bond's principal shrinks every year, reducing the debt outstanding and deleveraging the issuer. This avoids the uncertainty of making a big one-time principal repayment, which could come at an inopportune time—like during a recession.

In contrast, many corporate bond issues are five years in duration, and principal often isn't repaid until the maturity date. When that bill comes due, issuers borrow again to repay the principal on the first bond and start interest payments on the new bond. In times of stress, this rolling borrowing can put corporate bond issuers at the mercy of the market.

## **5) Essentiality: Services Citizens Can't Do Without**

Muni issuers' promise to pay bondholders is exceptionally strong because most muni bonds support services essential to public good. Almost all of the nearly \$4 trillion in outstanding municipal debt is tied to essential services such as education, public safety, electricity, water and waste treatment.

Communities rely on hospitals, toll roads and airports. It's hard to imagine the population cancelling these services in an economic downturn. And when things get really challenging, as they are now in the throes of the COVID-19 pandemic, the federal government can step in to keep the essentials operating. Most recently, the CARES Act dispatched unprecedented aid to hospitals, schools and other vital entities, with even more under consideration for state and local governments.

Collectively, these five characteristics have made municipal bond defaults a rare event, equipping them to withstand recessions, pandemics and other challenges along the way.

**by David Ambler, Matthew Norton of AllianceBernstein, 6/11/20**

*David Ambler is a Municipal Credit Research Analyst and Matthew Norton is Co-Head of Municipal Portfolio Management at AllianceBernstein (AB).*

The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams. Views are subject to change over time.

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## **College Bond-Sale Spree Draws in University of Michigan.**

- **School sells some \$1 billion of debt for projects, refinancing**
- **Despite uncertainty, colleges are seizing on low rates**

The University of Michigan is the latest elite school to join the higher-education bond selling spree.

The university sold nearly \$1 billion of bonds, \$850 million of which was taxable, to pay for construction projects and refinance debt, according to preliminary pricing wires viewed by Bloomberg. The taxable securities were priced at yields from 1% to 2.56%, or 57 basis points to 102 basis points over Treasuries, depending on the maturity.

Colleges have issued nearly \$23 billion of debt this year, seizing on the decline in interest rates that's come since markets stabilized over the past two months. That's about seven times more than was sold during the same period a year earlier, according to data compiled by Bloomberg.

The borrowing comes amid uncertainty about what universities are facing in the fall after having to close campuses early this year due to the coronavirus. While that's raising the financial risks for some colleges, the most elite universities are being less affected, given their large endowments or ability to draw far more applicants than they can accept.

The University of Michigan plans to make a decision on its fall return date this month.

"It's pretty attractive borrowing costs for these universities to come in, issue taxable munis, lock in the debt and have full control over the use of proceeds," said Gabriel Diederich, a portfolio manager with Wells Fargo Asset Management. "These flagship universities that have name recognition. Sometimes the pencils are already sharpened for the deal."

Yields for top-rated 10 year municipal bonds have fallen to about 0.8%, down from as much as 2.87% in March at the height of the market volatility kicked off by the pandemic.

The University of Michigan, which has an AAA credit rating, is borrowing to finance the construction of an impatient care facility, a parking facility and a transportation maintenance facility, along with expanding its engineering lab, reducing emissions at a power plant and refunding some existing debt, according to documents released ahead of the sale.

"The interest is broad-based and comes from many places including insurance companies, banks, pensions and foreign buyers," Diederich said before the pricing. "It's definitely name brand."

## **Bloomberg Markets**

By Fola Akinnibi

June 9, 2020, 10:56 AM PDT Updated on June 9, 2020, 12:56 PM PDT

— *With assistance by Danielle Moran*

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### **[Where to Find the Best Municipal-Bond Fund Buys.](#)**

There is good news and bad news from that relatively obscure corner of the investing world, closed-end municipal bond funds.

Their share prices have recovered from a shocking collapse back in March that took place in tandem with the plunges in the equity and corporate credit markets. But while the major stock indexes such as the S&P 500 have rebounded from their earlier losses, muni closed-end funds have recouped only about half of theirs.

The good news is that, as a result, they still offer high yields, especially compared with much of the Treasury market and money-market funds, which are on the verge of paying bupkus (that's a technical term) because of the Federal Reserve's aggressive actions to counter the slide in the markets and the economy from the coronavirus crisis.

[Continue reading.](#)

## **Barron's**

By Randall W. Forsyth

June 10, 2020 11:28 am ET