A Muni-Bond Fund That Lets You Sleep at Night.

Duane McAllister may have been born to be a municipal-bond fund manager.

During his childhood, his family owned a construction company in northwest Illinois that installed water mains and constructed highways—the exact type of projects he now invests in as the senior portfolio manager for the $1.1 billion Baird Short-Term Municipal Bond fund (ticker: BTMSX). His first job after graduating in 1989 with a bachelor's degree in finance from Northern Illinois University was with Northern Trust's muni-bond team. At the time, he would have rather joined the bank's active taxable fixed-income team.

"I thought, 'I'll have this market figured out after two or three weeks because obviously munis are so simple.' So here I am, more than 30 years later," he jokes.

Continue reading.

Barron's

By Debbie Carlson

Updated June 11, 2020 / Original June 10, 2020

How Investors Can Evaluate Muni Bonds in the COVID-19 Economy.

Investors and their advisors need to be extremely thorough in the current environment. Technology can help.

With more than 85,000 issuers and approximately 3 million CUSIPs, the municipal bond market can be challenging to navigate in even the calmest economic conditions. At a time like this, when the COVID-19 pandemic has caused severe disruption, volatility and uncertainty, investors and the financial advisors who serve them need to be extremely thorough when evaluating municipal bonds to add to their portfolios.

Looking Into Issuers & Pledges

Bonds can be repaid from many different sources including property taxes, sales taxes, hotel bed taxes, personal income taxes, mortgage revenues, lease payments for use and occupancy of long-lived government assets, and fees for services such as water and sewer.

These repayment sources can come from leases, essential services like water or electricity, or taxes, such as a state sales tax. General obligation bonds (GOs) have stronger protection measures in place for bondholders because they are backed by the full faith and credit of the issuer to tax state or municipality residents to raise money as necessary to pay the debt. Conversely, revenue bonds are backed by pledges of revenue from specific projects, such as hospitals, universities, bridges and toll roads.

All other things being equal, unlimited tax GOs or essential service revenues like water and sewer are generally safer investments. Investors should note that some general obligation bonds can have statutory limitations on their taxing powers, such as a cap on property taxes or the ability to resolve historical delinquencies. Essential service revenue bonds can be subject to dilution of a bond pledge when additional parity debt is authorized and sold. It is important to understand the effect these limitations can have on the creditworthiness of the bond.

A typical strategy for conservative municipal bond investors is to focus on bonds supported by general obligations or essential services and issued by states or municipalities with AAA ratings. While these are certainly healthy characteristics, advisors and investors should also consider additional factors. For example, how diversified is the economy of the state or municipal issuer? Can it successfully withstand extreme market volatility of the type we are currently witnessing? What is the median income of the people who live there? Are there geographic or environmental risks associated with the issuer? How big is the issuer's market position? (The larger an issuer's market presence, the wider the audience of prospective buyers, giving their bonds a greater liquidity profile.)

Crucially, are the revenue pledges/obligations of the issuer included as a covenant in the investment contract?

These are all prudent questions to ask when vetting possible municipal bond investments.

Duration and Risk

During times like this, when people are concerned not just about the overall economy but also their physical well-being, investors can naturally gravitate towards investments with less volatility. Municipal bonds, like any fixed income security, are exposed to interest rate risk and vary in duration. With a fixed coupon bond, the longer the time until bond maturity, the more susceptible investors are to interest rate changes that will affect the value of their investment.

Laddering the municipal bonds by final maturity within portfolios may help investors with longer investment horizons help reduce interest rate risk. If, for example, an investor has $1 million to invest in municipal bonds, their advisor can work with them to identify a diverse mix of bonds with shorter durations of two to three years, and longer durations of 10 or 15 years.

While interest rate moves don't affect the principal, it does affect the secondary market value if bonds need to be sold prior to maturity. Additionally, a bond ladder is exposed to "opportunity cost" or "reinvestment risk" — the capability to reinvest the principal when it comes due at the same or higher interest rate.

By constructing a portfolio composed of municipal bonds with different durations, investors can arrange maturities as they need their original investment returned and mitigate some duration risk.

How Technology Solutions Can Help Muni Bond Investors

The size of the municipal bond universe, and scale of recent market volatility and uncertainty, can make investment selection and management difficult for advisors and investors. Fortunately for them, modern technological innovations can simplify the process significantly.

By partnering with a fintech provider whose fixed income solutions can filter municipal bonds by type of infrastructure (energy, roads, airports, etc.), obligations and pledges, and more, advisors and investors can view a streamlined list of safe and well-priced bonds at their fingertips via electronic alerts. Advisors and investors should also check to see that any fintech vendor they use can compare bonds from different market sources in order to identify the best-priced securities.

When a fixed income investment platform provider combines technology innovation with a team of experienced capital markets professionals, the vendor can help advisors and investors access, and sift through, past official statements or continuing disclosures from issuers — a vital service for determining an issuer's creditworthiness before investing, and ensuring obligations are covenants in underlying investment contracts. This combination also allows advisors to thoroughly document the process for achieving best execution on every trade.

As long as investors and their advisors have the right mixture of strong market expertise, robust due diligence methodology and innovative technology, they can harness many promising opportunities in the municipal bond market — and utilize these investments to help them navigate the extreme volatility and uncertainty stemming from the COVID-19 pandemic.

ThinkAdvisor

By Jason Ware | June 10, 2020 at 09:57 AM

Jason WareJason Ware is managing director and head of institutional trading at 280 CapMarkets, a fintech firm transforming fixed income through technology.

What's Happening In The Muni CEF Space?

Summary

- Munis are down a bit from a few weeks ago while equity markets have zoomed higher.
- Most of the decline is due to "headline risk," namely comments from politicians discussing bankruptcy.
- State finances are weak, for sure, but are unlikely to need bankruptcy as a means of mending them.
- Muni CEFs saw a huge rebound in NII and large distribution increases thanks to lower leverage costs.

Continue reading.

Seeking Alpha

Jun. 9, 2020

Fed Expands Municipal Bond Program, Opening Door to Some Smaller Cities.

At least two cities or counties in every state will be able to issue to the central bank's program, meant to help municipal bond markets.

WASHINGTON — The Federal Reserve said on Wednesday that it would allow states to designate some cities, counties and other debt issuers, like mass transit systems, to raise funds by selling debt to the central bank's municipal bond-buying program.

The Fed's program, first announced on April 9, was previously able to buy debt only from cities with populations of 250,000 or more and counties with populations of at least 500,000. Those larger cities and counties, along with some entities that work across state lines, remain eligible to sell notes of up to 36 months to the central bank's facility.

The change means that states that do not have sufficiently large cities or counties — or that have only one — will be able to designate up to two city or county issuers to use the program. Governors from each state will also be able to designate two bond issuers whose revenues come from operating government activities, like public transit, airports or toll facilities.

[Continue reading.]

The New York Times

By Jeanna Smialek

June 3, 2020

[Fed Expands Municipal Liquidity Program to Include Transit, Airports, Utilities.]

WASHINGTON — The Federal Reserve said on Wednesday it will allow governors of U.S. states to designate transit agencies, airports, utilities and other institutions to borrow under its municipal liquidity program as the central bank tries to mitigate economic fallout from the coronavirus pandemic.

Governors will be able to designate two issuers in their states whose revenues are generally derived from operating so-called government activities, the Fed said in a statement.

The central bank also said it is expanding its program to allow all U.S. states to be able to have at least two cities or counties eligible to directly issue notes to the municipal liquidity facility regardless of population.

Currently only U.S. states and cities with a population of at least 250,000 residents or counties with a population of at least 500,000 residents have been able to make use of the $500 billion short-term borrowing program.

The Fed has come under pressures to expand its population criteria from lawmakers whose states have no local governments that met the population thresholds.

New York's hard-hit Metropolitan Transportation Authority last month asked Fed Chair Jerome Powell for direct access to the program.

Even with the expansion of potential users, demand may be low given the cost.

"It's been less a question of eligibility and more of a question of pricing," said William Glasgall, director of state and local initiatives at the Volcker Alliance.

Recent sample purchase rates from the New York Fed range from 1.51% for the highest-rated governments to 3.84% for those with the lowest investment-grade ratings.

On Tuesday, Illinois became the first state or local government to tap the Fed's program with a $1.2 billion borrowing. Analysts have said the program, announced in April, was set up to be the lender of last resort and would make the most sense for lower-rated governments.

By Reuters

June 3, 2020

(Reporting by Lindsay Dunsmuir and Howard Schneider; Additional reporting by Karen Pierog in Chicago; Editing by Chris Reese, David Gregorio and Will Dunham)

Fed Expands Municipal-Lending Facility to More Localities.

Illinois plans to issue $1.2 billion in one-year notes Friday to become the first borrower to access the central bank's program

The Federal Reserve said it would again broaden the number of local governments eligible for a new lending program as Illinois announced it would be the first borrower to access the facility.

The central bank said Wednesday it would allow all 50 states to designate two cities or counties to sell debts directly to the central bank's program, creating an option for states with less populous municipalities to participate. Many state and local governments are facing cash crises as the coronavirus pandemic has crushed both their tax intake and driven an increase in their spending.

The central bank also said state governors will be able to designate an additional two issuers whose revenues are derived from operating activities, such as airports, toll facilities, utilities or public transit, to be eligible to use the facility on their own.

The changes could allow more than 380 issuers, up from around 260 before the latest changes, to access the emergency-lending program, which was first announced in April.

So far, however, few have shown interest in borrowing through the Fed, which has positioned itself as a high-interest lender of last resort.

Illinois becomes the first to tap the program. It is the country's most indebted state.

Illinois said it would issue $1.2 billion in one-year notes Friday to tide it over until income taxes arrive late in July. The state, which is rated just above junk status, is planning to borrow through the Fed at an interest rate of 3.82%. The rate is more than 10 times what one-year A-rated bonds were going for Wednesday, according to Refinitiv.

"When you can't get anybody else to lend you money, you've got to go to Papa," said Ben Watkins, director of Florida's Division of Bond Finance.

Municipalities can issue up to three-year debt under the program originating in federal coronavirus aid legislation. Congress gave $454 billion for the Treasury to use to backstop losses in Fed lending programs, and the Treasury has committed $35 billion of that money for a central bank effort to backstop municipal debt.

The Fed previously made the program available to all 50 states, the District of Columbia, and one borrower for each county of at least 500,000 people and city of at least 250,000. Those thresholds had already been revised once, down from earlier cutoffs of 2 million and 1 million.

The changes will extend participation in the facility to one extra municipality in six states, including Alabama and Hawaii, that currently have just one eligible municipal issuer, and they will allow two municipal issuers in 15 states, including Idaho and Vermont, that had none eligible before.

The announcement of a muni-buying program from the Fed injected confidence into a faltering market. The interest rate on an A-rated 30-year general obligation bond was 2.14% Wednesday, compared with 2.51% on April 8, the day before the Fed formally announced the muni-lending program.

Both Congress and the Federal Reserve are pumping trillions of dollars into the economy to fight the economic damage caused by the coronavirus. WSJ explains where all that stimulus money is coming from. Photo Illustration: Carlos Waters / WSJ
But the facility itself could be useless to many state and local governments whose ability to borrow for operating costs is limited by local law or state constitution. Illinois lawmakers tweaked that state's law this spring to facilitate borrowing from the Fed facility.

"Balanced budget requirements, legal restrictions on the length for which notes can be outstanding, and prohibitions on counting long-term debt proceeds as current revenue could limit the utility of the Fed's efforts," said Clayton Gillette, a professor at New York University School of Law.

Also making state and local governments wary is the high level of uncertainty about how much revenue to expect. Fitch Ratings cautioned in a report Wednesday that governments borrowing in anticipation of delayed revenues could be disappointed if those revenues are lower than expected when they finally do come in.

Wisconsin capital finance director David Erdman said the state doesn't plan to issue debt for operations, but if it did, he expects it could borrow more cheaply in the market than through the Fed facility.

"But as we've learned from everything that's happened so far in 2020, you really don't know what tomorrow brings," he said.

The Wall Street Journal

By Heather Gillers and Nick Timiraos

Updated June 3, 2020 3:17 pm ET

Write to Heather Gillers at heather.gillers@wsj.com and Nick Timiraos at nick.timiraos@wsj.com

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Fed Expands Scope of Eligible Issuers for Municipal Liquidity Facility.

The Federal Reserve today announced that they will again expand the scope of cities that will be able to borrow directly from the Municipal Liquidity Facility (MLF). This comes after pressure from Capitol Hill concerning the ability for smaller and rural localities to access the program.

The updated fact sheet can be viewed [here](#).

****BDA Advocacy on all stimulus related legislation and programs can be viewed [here](#).**

Municipal Liquidity Facility Updates

- The Fed will still purchase short-term debt from any state, as well as counties with a population of at least 500,000, cities with a population of at least 250,000 and certain multi-state issuers.
- Now, governors in states that have fewer than two cities or counties that meet those population thresholds will have the power to designate municipalities as direct borrowers from the facility.
- Governors will also have the power to make two issuers in their state eligible for the lending program if their revenue is "generally derived from operating government activities," like public transit entities or airports.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

June 3, 2020

BDA Calls on Fed to Include all Banks and Dealers who Provide Liquidity in Emergency Programs.

Today, the BDA submitted additional comments to the Federal Reserve on their continued intervention in the capital markets to discuss market structure, and the need to expand their emergency programs to include all banks and dealers who provide liquidity to the market.

The letter can be viewed here.

****All BDA COVID-19 correspondence can be viewed here.**

The letter, while commending Chairman Powell and the Federal Reserve for taking necessary actions to swiftly assistant capital markets, calls on the Fed to be more aware of current market structure:

- The BDA notes that the 24 Primary Dealers with whom the Fed currently trades make up a much smaller share of the trading market;
- Federal regulators have worked hard over the last decade to spread risk more evenly around the financial system and they have been successful; and
- The Fed should look past outdated market structure strategies that rely on a limited number of participants and instead take full advantage of our robust capital markets.

Bond Dealers of America

June 2, 2020

Fed’s Municipal-Bond Backstop Is Still Too Punishing.

Given the history of state and city defaults, the central bank’s interest rates look steep.

When the Federal Reserve first unveiled its backstop for the $3.9 trillion municipal-bond market in early April, it drew swift backlash for setting arbitrary population cutoffs that excluded many crucial U.S. cities. Within about a month, the central bank significantly lowered its thresholds.

On Wednesday, it went even further, allowing all 50 states to have at least two cities or counties eligible to directly issue notes to the Fed’s Municipal Liquidity Facility, regardless of their size. The central bank also said governors can designate two revenue-bond issuers, like public transit agencies or airports, as eligible borrowers. Apparently, Fed Chair Jerome Powell and his colleagues are trying to make sure that these funds can reach the smaller and poorer communities that need them the most.

Lost in this conversation: The Fed has set interest rates that are overly punitive anyway.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

June 4, 2020, 2:30 AM PDT

Wall Street Vet Guides Fed Plan That Rescued Muni-Bond Market.

- **Even before making any loans, backstop ended a massive selloff**
- **Fed taps former Bear Stearns, JPMorgan banker as adviser**

In the days after America’s state and local government bond market nearly froze during a record-setting crash set off by the coronavirus, the Federal Reserve hired Kent Hiteshew to make sure it doesn’t happen again.

The 65-year-old former JPMorgan Chase & Co. banker immediately began working the contacts he’d built during nearly three decades on Wall Street and a stint in President Barack Obama’s Treasury Department.

The Fed was moving aggressively to prop up other debt markets being hammered, too, as the economic standstill set off panic on Wall Street.

Yet the mere prospect of the central bank’s first intervention ever into the $3.9 trillion municipal market — authorized by the stimulus plan enacted in Congress — was enough to stop a mass exodus by investors who were yanking tens of billions of dollars out of mutual funds. Even before its details were announced on April 9, prices rallied. Bond deals shelved during the crisis were sold as buyers came back, and investors have been returning cash to mutual funds as the losses that piled up in March disappeared.

Congress has so far failed to extend more help to states, cities and counties facing massive budget shortfalls as tax revenue disappears. As a result, the only lifeline to come from Washington may be the Fed program Hiteshew is helping to guide.

But it’s also a limited one. While the central bank moved aggressively to buy up corporate bonds, the Fed hasn’t been buying municipal debt on the open market. Instead, it opted to make $500 billion available for government loans due within three years. It has made it clear that it’s a credit line of last resort, one to turn to only if markets seize up again or skittish investors demand excessively high interest rates from states and municipalities. It’s set to lapse at the end of the year.

“None of us know today whether the recovery will be V-shaped or take much longer, or how deep it will be,” Hiteshew said during a conference event held last month by the Government Finance Officers Association. “The last thing we want to see is have state and local governments’ balance sheets loaded up with deficit financing that can hinder their ability to provide the essential services and infrastructure financing that we as a nation depend on going forward.”

First Customer

That’s meant that the Fed’s municipal-lending program has had little direct effect, aside from restoring investors’ confidence that it will step in to halt another liquidity crisis.

Illinois, whose bond yields have surged on the risk it could be the first state ever cut to junk, this week became the first to borrow from the Fed. It paid a rate of 3.82% for a $1.2 billion one-year loan. Wall Street analysts have speculated that only struggling municipalities will borrow because those with AAA ratings can borrow for just 0.09% in the public market. The Fed is charging penalties of 1.5 percentage points to 5.9 percentage points over a market benchmark on its loans, depending on the grades assigned by the major rating companies.

That’s drawn criticism from some on Wall Street and in Washington that it should be doing more. Analysts at Citigroup Inc. have said the Fed should extend the program to include buying long-term debt, which would give governments more time to recover from the economic downturn.

“The way they’ve done it is just simply not enough,” said U.S. Senator Bob Menendez, a Democrat from New Jersey who sits on the banking committee.

The Fed has said it is monitoring the market and could step in further if needed. It has already shown a willingness to alter the municipal lending program.

Extending Reach

Hiteshew, who started his career at Morgan Stanley in 1988 before moving on to Bear Stearns Cos. and JPMorgan, was hired as an adviser to the Fed for six months. He spent the early weeks of his job on the phone with credit-rating analysts, Wall Street bankers, investors and groups that represent local government officials.

In late April, after the program drew pushback for allowing only the biggest cities and counties to borrow — freezing out some hard hit cities with large black populations — the Fed lowered its population thresholds to give it broader reach. This week, it went even further, allowing governors in the least populous states to pick up to two municipalities that could borrow if they still weren’t big enough to qualify.

It also extended the lifeline to agencies like public transit operators or airports — with a limit of two per state — to help alleviate the cash shortfalls as air travel and commuting plunges. That will likely help New York’s Metropolitan Transportation Authority, the subway operator that’s looking at borrowing from the Fed to help cover a potential deficit of $8.5 billion.

Former colleagues credit Hiteshew for his deep market knowledge and skill at building consensus. When he led the U.S. Treasury's Office of State and Local Finance from 2014 to 2017, he helped create support in Congress for legislation allowing Puerto Rico to go bankrupt to provide an orderly way out of its debt crisis.

"Kent is someone who understands his mandate, the limits of the authorities that the institution can exercise, but also the full weight and breadth of the available authorities," said Antonio Weiss, a counselor to then-Treasury Secretary Jack Lew who oversaw the Puerto Rico rescue. "His creativity and technical expertise will help the Federal Reserve unlock the full extent of its powers in addressing the crisis that states and municipalities face. But it will be within the limits of the mandate, not outside."

Rebound from Crisis

The Fed's backstop so far appears to have been enough to return the municipal-bond market to normalcy. By promising to prevent a flood of short-term debt sales by governments seeking to bridge temporary cash shortfalls, it has driven interest rates down steeply. Top-rated two-year bonds are yielding about 0.17%, down from as much as 2.78% in mid-March.

Investors have added money to municipal debt mutual funds since mid-May, with $1.2 billion flowing in during the week ended Wednesday, according to Refinitiv Lipper US Fund Flows. The interest rates on long-term bonds have also plunged, driving the Bond Buyer 20-year index to the lowest since at least 1960.

That may undercut, at least temporarily, the impetus to make long-term loans.

"It's not free money," said Thomas Green, a managing director and public finance banker at Citigroup.

Hiteshew is "setting it up to be helpful to those who need it and that's a helpful thing from the Fed's point of view," he said. "They don't tend to want to get entangled in state and local affairs if they can avoid it."

Bloomberg Markets

By David Voreacos and Amanda Albright

June 5, 2020, 6:03 AM PDT

Fed Expands Muni Loan Program to Include Smaller Borrowers.

- **Emergency program can support up to $500 billion in lending**
- **Illinois says it is first to tap facility with $1.2 bln credit**

The Federal Reserve is expanding a $500 billion emergency lending program for state and local governments to include smaller borrowers, following concern that some needy communities might miss out.

"Under the new terms, all U.S. states will be able to have at least two cities or counties eligible to directly issue notes" to the Fed's Municipal Liquidity Facility, "regardless of population," the U.S. central bank said in a statement Wednesday.

"Governors of each state will also be able to designate two issuers in their jurisdictions whose revenues are generally derived from operating government activities (such as public transit, airports, toll facilities, and utilities) to be eligible to directly use the facility," the Fed added.

The municipal facility, which is backed by funds from the U.S. Treasury Department and can support up to $500 billion in credit, is one of nine Fed emergency lending programs aimed at mitigating the economic impact of the coronavirus pandemic.

Smaller and Poorer

Fed Chair Jerome Powell and his colleagues worry that severe revenue hits facing state and local governments could make the economic downturn worse if local leaders are forced to cut services and lay off workers. They've also taken criticism from those who say the facility's limits might prevent it from channeling funds to smaller and poorer communities where the need is greatest. Some officials have also pointed at Congress for more fiscal help.

The move comes against a backdrop of protests in cities across the country following the killing of George Floyd, an unarmed black man, by a white Minneapolis police officer that has intensified the national debate over racial inequality.

Before Wednesday's expansion, the program was open to state issuers, the District of Columbia, U.S. cities with populations of at least 250,000 residents, counties with populations of at least 500,000 and certain other multi-state entities.

Muni yields have plummeted since the Fed stepped in
Since the Fed announced the program on April 9, renewed investor appetite for municipal debt has pushed yields on securities issued by the most highly-rated borrowers to nearly zero, removing for many the need to turn to the central bank for help.

"The program may help relieve some concerns in the municipal market by transferring some near-term liquidity risks to the medium-term, and that may lead investors to view municipal credit challenges in terms of downgrades rather than defaults," said Robert Amodeo, head of municipals at Western Asset Management Company.

On Tuesday, the state of Illinois became the first borrower to tap the facility, announcing plans for a one-year, $1.2 billion loan at a 3.82% interest rate to cover shortfalls resulting from an extension of this year's deadline for filing income tax returns.

The Fed's new term sheet for the program says that governors can designate revenue bond-issuers in their state that are eligible to use the program. That may help New York's Metropolitan Transportation Authority, which last month asked the Fed to allow it to borrow directly through the program rather than through the state. The MTA estimates its deficit for 2020 may grow to as much as $8.5 billion as ridership sinks due to the pandemic.

Aaron Donovan, an MTA spokesman, declined to comment Wednesday on the most recent changes to the Fed program.

Bloomberg Economics

By Matthew Boesler and Amanda Albright'

June 3, 2020, 10:00 AM PDT Updated on June 3, 2020, 12:42 PM PDT

— With assistance by Michelle Kaske, and Martin Z Braun

UPDATED: Treasury Publishes FAQs – Coronavirus Relief Fund Payments for State, Local, and Tribal Governments - Ballard Spahr

The CARES Act was signed into law by President Trump on March 27, 2020. The CARES Act established a $150 billion Coronavirus Relief Fund (Fund), through which the U.S. Department of Treasury (Treasury) will make direct payments to each state, eligible units of local government, the District of Columbia, U.S. Territories (the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands), and Tribal Governments. The direct payments can be used this year to help with state and local government expenses incurred in connection with the COVID-19 pandemic. Eligible state, territorial, local and tribal governments were required to apply for direct payments from the Fund by April 17, 2020.

Treasury published the Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments on April 22, 2020 (Guidance) for recipients of direct payments from the Fund. The Guidance sets forth the Treasury's interpretations on the permissible use of Fund payments. Treasury published answers to frequently asked questions concerning the Fund to supplement the Guidance on May 4, 2020 and updated the frequently asked questions on May 28, 2020. The FAQ provides additional guidance regarding eligible expenditures and the administration of Fund payments.

The CARES Act only permits direct payments from the Fund to cover those costs that (i) are necessary expenditures incurred due to the public health emergency with respect to COVID-19; (ii) were not accounted for in the budget most recently approved as of March 27, 2020 (the date the CARES Act was enacted) for the government entity; and (iii) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. The Guidance offers Treasury's interpretation of these limits and provides nonexclusive lists of examples of both eligible and ineligible expenditures. The FAQ clarifies that governments are responsible for determining what expenses are necessary and will not need to submit expenditures for Treasury's approval. The FAQ also provides answers to specific questions relating to Treasury's lists of eligible and ineligible expenditures in the Guidance.

Treasury provided additional guidance on the following topics, among others, in the FAQ:

- Types of employees whose payroll may be covered by moneys received from the Fund (Fund Payments) – a state, territorial, local, or tribal government may presume that payroll costs for public health and public safety employees are payments for services "substantially dedicated" to mitigating or responding to the COVID-19 public health emergency.
- Transfers of Fund Payments to other government units – states receiving payments may transfer funds to a local government if it qualifies as a necessary expenditure incurred due to a public health emergency and meets other statutory requirements. Since local governments with populations of 500,000 or less were not eligible for direct payments from the Fund, states should transfer a portion of the Fund Payments they received to such local governments. The FAQ recommends using the per capita allocation formula in the CARES Act, under which a state should distribute 45% of the Fund Payments it received to local governments within the state with a

population of 500,000 or less.

- Ability to use Fund Payments in conjunction with other CARES Act funding or federal funding for COVID-19 relief – expenses that have been or will be reimbursed under any federal program (including reimbursement pursuant to the CARES Act of contributions by states to state unemployment funds), are not eligible uses of Fund payments.
- Use of Fund Payments to support unemployment insurance funds and costs – States may use Fund Payments to support unemployment insurance funds separate and apart from the State's obligation to the unemployment insurance fund as an employer to the extent costs incurred by the unemployment insurance fund are incurred due to COVID-19, and may also use Fund Payments for unemployment insurance costs incurred by the State as an employer if such costs will not be reimbursed by the federal government otherwise under another program.
- Inability of governments to use Fund Payments for government revenue replacement or capital improvement projects – Fund Payments may not be used for government revenue replacement, including meeting tax obligations or paying unpaid utility fees, or for capital improvement projects if they are not necessary expenditures incurred due to COVID-19. However, a government could provide grants to electricity account holders facing economic hardship to allow them to pay their utility fees and continue to receive essential services, if the government determined this to be a necessary expenditure.
- Return of unspent Fund Payments to Treasury – recipients must return to Treasury unspent Fund Payments or amounts received from the Fund that have not been used in a manner consistent with the Guidance and section 601(d) of the Social Security Act. If Fund Payments are not used in a manner consistent with the Guidance and/or section 601(d) of the Social Security Act, Treasury would seek to recoup the funds from the government that received the Fund Payment from Treasury. Accordingly, governments that transfer a portion of their Fund Payments should ensure that the recipient government uses the Fund Payments appropriately.
- Deposit of Fund Payments in interest bearing accounts – permitted as long as the recipient uses the interest earned or other proceeds of the investment only to cover expenditures incurred in accordance with the Guidance and section 601(d) of the Social Security Act.
- Retention and disposition of assets purchased with Fund Payments – governments may retain assets purchased with Fund Payments if the purchase was consistent with the Guidance and section 601(d) of the Social Security Act. If the assets are disposed of before December 30, 2020, the proceeds are subject to the restrictions on the eligible use of Fund Payments.
- Audits – Fund Payments may be used to cover the expenses of an audit conducted under the Single Audit Act, subject to the limitations in the Uniform Guidance. Fund Payments are considered "other financial assistance" under the Uniform Guidance (2 C.F.R. Part 200) rather than grants. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is 21.019, pending completion of registration.

by the Finance Group

June 2, 2020

www.ballardspahr.com

UPDATED: New York Federal Reserve Expands Eligible Issuers and Provides Indicative Pricing and Sample Transaction Documents for Municipal Liquidity

[Facility - Ballard Spahr]

The Federal Reserve Bank of New York (the New York Fed) has announced an expansion of its $500 billion Municipal Liquidity Facility to allow participation by designated cities and counties that do not meet the population thresholds required for direct participation (cities with populations in excess of 250,000 and counties with populations in excess of 500,000). In addition, up to two designated revenue bond issuers in each state may participate directly by issuing notes to the Facility.

What is a designated city or county?

Governors of states with fewer than two eligible cities and/or counties may designate up to two cities and/or counties (on a combined basis) to participate in the Facility. If a state has one city or county that is eligible to participate on the basis of its population, the governor of that state may designate one additional city or county, for a total of two eligible issuers. In that case a governor may choose either (i) the most populous city in his or her state that has fewer than 250,000 residents or (ii) the most populous county in his or her state that has fewer than 500,000 residents.

If a state has no cities or counties that meet the required population thresholds, the governor of that state may designate two cities and/or counties in any of the following combinations: the most populous city and most populous county; the most populous city and second-most populous city; or the most populous county and second-most populous county.

The New York Fed published a table showing the maximum number of cities and counties (on a combined basis) that each governor may designate. States that already have two cities and/or counties that are eligible to participate based on their population size may not designate additional cities or counties for participation.

What is a designated revenue bond issuer?

Each governor of a state may designate up to two revenue bond issuers (each a Designated RBI) in his or her state for participation in the Facility. The Mayor of Washington, D.C. may designate one revenue bond issuer. The New York Fed's guidance defines a revenue bond issuer as "a State or political subdivision thereof, or a public authority, agency, or instrumentality of a State or political subdivision thereof, that issues bonds that are secured by revenue from a specified source that is owned by a governmental entity." Notes issued by a Designated RBI will be expected to be parity obligations of existing debt secured by a senior lien on the gross or net revenues of the Designated RBI.

How does the designation occur?

When submitting a notice of interest to participate in the Facility, each designated city, county, and revenue bond issuer must provide evidence that it has verified with the governor of its state that it will be designated. At the time of closing, the designated entity must also provide a certification from the governor of its state reflecting the designation.

What are the sample rates for purchases of municipal securities?

The New York Fed published an index of sample interest rates for purchases of municipal securities by the Municipal Liquidity Facility (the Facility). The rates are provided as indicative rates as of June 1, 2020, and will be updated weekly. The New York Fed advised that the indicative rates are not intended to be a measure of market conditions and actual transactions will be priced individually and may differ from the published rates.

Are there sample transaction and application documents?

As described in prior guidance from the Federal Reserve, interested issuers will be required to complete a Notice of Interest (NOI) on a form published on the New York Fed's website. The Facility's Administrative Agent will send an email confirmation to the issuer when the NOI package has been approved, along with an invitation to complete an application. A sample application and certain form transaction documents have been posted on the New York Fed's website for informational purposes, to provide issuers with a better understanding of the process and requirements of the Facility. The sample documents include a Note Purchase Commitment (for use in competitive sales), a Note Purchase Agreement (for use in competitive sales and direct purchases), a Continuing Disclosure Undertaking, and forms of certificates to be provided by an issuer. To date, only Illinois, the state with the lowest credit rating, has borrowed through the Facility, with an issuance of $1.2 billion anticipated to close on June 5.

For our summary of the Federal Reserve Board's initial announcement of, and prior updates to, the Facility, see "The Fed Throws a Cash Flow Lifeline to State and Local Governments", "Updates to the Federal Reserve Board's New Municipal Liquidity Facility" and "Federal Reserve Provides Pricing and Other Updates to Municipal Liquidity Facility."

by the Public Finance Group

www.ballardspahr.com

June 4, 2020

Best's Special Report: Pandemic Creates a Severe Test for Municipal Bond Market

Given the severe medium-term impacts on the municipal bond markets driven by the pandemic, U.S. insurance companies with more significant exposures, particularly revenue bonds for the more vulnerable sectors such as transportation and retail, are more likely to feel the negative market effects, according to a new AM Best special report.

The significant decline in revenue of states and cities during the COVID-19 pandemic likely will affect municipal bondholders. The Best's Special Report, titled, "Severe Test for the Municipal Bond Market" states that insurers' municipal bond exposures are significant. Additionally, more than two thirds of the municipal bonds held by insurers are from 15 states, including states hard hit by the pandemic, such as New York, New Jersey, Illinois, Massachusetts and California. Of the three major insurance segments, property/casualty insurers have the greatest municipal bond exposure, although it has decreased by 20% since 2016, when the Tax Cuts and Jobs Act made the tax-exempt status of this asset class less advantageous. Nevertheless, the segment's exposures remain considerable, as municipal bonds constitute nearly 14% of the property/casualty segment's invested assets, compared with 12% and 4.1% for the health and life/annuity segments, respectively. The life/annuity segment's municipal bond exposures represent 42% of their capital and surplus, exceeding that of other two segments. Companies rated by AM Best account for nearly 90% of the insurance industry's municipal bond holdings.

Given their relative value and tax-exempt characteristics, municipal bonds will continue to play a role in an insurer's strategic asset allocation. However, selecting appropriate exposures will be critical to insurers' ability to manage through this tumultuous cycle. "The expertise and risk management practices of insurers and their investment managers will be tested," said Jason Hopper, associate director, industry research and analytics. "Insurers that have a deep understanding of the municipal bond markets and well-defined risk thresholds based on solid credit risk fundamentals will perform better during and after the pandemic crisis."

All asset classes have been affected by the pandemic, providing yet another illustration of rising correlations during times of stress. AM Best will continue to monitor the overall impact of deteriorating conditions on insurers' ability to maintain adequate capital appropriate for their business and investment risks.

To access the full copy of this special report, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=297861.

To view a video discussion with Hopper about the report, please go to http://www.ambest.com/v.asp?v=municipalbonds620.

AM Best is a global credit rating agency, news publisher and data analytics provider specializing in the insurance industry. Headquartered in the United States, the company does business in over 100 countries with regional offices in New York, London, Amsterdam, Dubai, Hong Kong, Singapore and Mexico City. For more information, visit www.ambest.com.

Business Wire | June 4, 2020

With Stadiums Closed, Municipalities Struggle With Billions in Debt.

Two decades of using borrowed money to pay for new stadiums is coming back to haunt many cities across the country.

At Gila River Arena in Glendale, Ariz., home of hockey's Arizona Coyotes, the coronavirus pandemic forced the cancellation of eight NHL games, a Celine Dion concert and a professional bull-riding tour, but it didn't change the schedule for the city's $10.7 million 2020 debt payment for the venue.

"Are we happy about the slowdown in the revenues that we're going to see in the foreseeable future? No. But we won't be cutting services," said Glendale City Manager Kevin Phelps. The city owes another $12.7 million for Camelback Ranch-Glendale, where Major League Baseball's spring training shut down in March.

Coronavirus lockdowns have emptied arenas and stadiums indefinitely, shuttering professional sports and concert tours alike, and have significantly reduced taxes. When cities issue bonds and use the proceeds to build stadiums, they pledge to make yearly bond payments on the debt, often counting on revenue from sales, hotel or rental-car taxes to cover the payments.

Public officials have borrowed billions of dollars to build stadiums for major teams. Since 2000, more than 40% of almost $17 billion in tax-exempt municipal bonds sold to finance major-league stadiums were backed by levies on hotels and rental cars—making tourism taxes the predominant means of public stadium finance, according to the Brookings Institution.

The borrowers envisioned the sports facilities as a form of economic development that would attract fans from near and far, raising cities' national profile and boosting their revenue beyond what was needed to pay back the bonds. The pandemic has turned that calculus on its head, crushing tourism proceeds and turning stadiums into a strain on city budgets—when cities are already hemorrhaging revenue from coronavirus shutdowns.

The National League of Cities, an advocacy group, projects that American cities, towns and villages will experience a combined shortfall of roughly $360 billion through 2022, raising questions about decisions to allocate public money to sports franchises.

Municipalities' struggle with tourism-linked debt marks the latest strain on the municipal bond market, where millions of investors traditionally put their money as a safe place for retirement. Much of outstanding municipal debt is backed by payments such as property taxes and sewer fees, leading many to consider the securities nearly as safe as Treasurys.

"Investors are looking at what they're holding and the security they have," said Howard Cure, director of municipal bond research at Evercore Wealth Management. "The more exposure to tourist taxes, the more concerned they are."

Prices on a sampling of 20 bonds backing professional and recreational sports facilities are trading at a median 6% lower than they were before mid-February, according to a Wall Street Journal analysis of data from ICE Data Services. The S&P Municipal Bond Index, in contrast, has rebounded almost to its mid-February level.

Maryland Heights, Mo., bonds backing the Centene Community Ice Center, used by the National Hockey League's St. Louis Blues, have fallen from 109 cents on the dollar at the beginning of March to 68 cents on May 21, the last time the bond was traded. The city uses revenue from the facility, which in normal times hosts athletic activities and programs, to cover most of the debt payment of $3.6 million a year.

Finance Director Dave Watson said the city has significant reserves and expressed confidence in the facility's long-term success. "If hockey stays popular, the facility will be fine," he said.

The city, which has a total general-fund budget of $25 million and has seen dips in its casino and hotel revenue as a result of the pandemic, could end up shelling out up to $625,000 toward the debt payment under an agreement to backstop shortfalls.

The risk that empty stadiums will become a revenue drain on cities and counties is greater in some places than others.

Miami-Dade County, which hosted the Super Bowl earlier this year, has already collected nearly twice the dollar amount in sports and tourism tax revenue needed to cover this year's $15.1 million debt payment on Marlins Park, the home of the Miami Marlins baseball team. Most of that money came in before shelter-in-place rules went into effect.

But even if debt payments are covered, tourist taxes are still likely to take a hit.

Jackson County, Mo., is still determining what the temporary closing of stadiums will mean for the county's tax revenue.

"There is no question that we are going to take some sales tax hit from these facilities not being in operation," said Caleb Clifford, chief of staff to the county executive.

The county devotes a third of its total sales tax—the county's largest single source of income—plus an additional $3.5 million in property taxes to debt payments for and management of the Harry S. Truman Sports Complex, where the Kansas City Royals and the Kansas City Chiefs play.

Elsewhere, stadium debt similarly takes up an outsize proportion of tax dollars. In Glendale, a city of 250,000 residents, around 66% of the city's public debt is tied to the city's stadiums and arenas, according to Moody's Investors Service. The hotels, restaurants and stores typically comprise a major source of revenue for repayment of the bonds.

Glendale expects to patch budget holes this year with one-time revenue from new construction and the sale of city property and may have to draw about $1 million from its rainy-day fund next year, Mr. Phelps said.

Mr. Phelps said that the debt load from Gila River Arena and Camelback Ranch is "probably higher than it should be" but that the facilities represent a long-term investment in the city's future, while the pandemic is a short-term crisis. The 2023 Super Bowl and the 2024 NCAA Final Four are both set to take place in Glendale.

No stadium bonds involving major professional sports leagues have defaulted in recent memory, but there are signs of strain.

In April, the Oakland Athletics withheld a $1.2 million rent payment to Oakland Coliseum as it furloughed staff members and cut salaries.

Moody's has placed bonds backing Mercedes-Benz Stadium, home of the Atlanta Falcons, on review for downgrade, while S&P Global Inc. has lowered its outlook to negative on that venue and the BB&T Center, where the Florida Panthers hockey team plays.

Ratings firms evaluate municipal borrowers' creditworthiness and risk of default or nonpayment. While defaults in the municipal market are rare, a lowered outlook from a ratings firm means the bonds are at increased risk of a downgrade, which can drive up the cost of new debt for the borrower and drive down the market value of bonds for the investors holding them.

A default on a community athletic center and ice hockey facility in Minnesota eight years ago shows the long-lasting and costly consequences stopping payment on a sports venue can have for local budgets.

After revenue fell far short of what was needed to cover debt payments and operations at the local sports complex, Vadnais Heights faced the prospect of significantly increasing taxes and fees on residents, according to Kevin Watson, the city administrator.

Vadnais Heights chose to stop making payments on the two-year-old center, plunging the city into three years of litigation with the complex's operator, which ended with the city paying $75,000 in settlement costs. Moody's downgraded Vadnais Heights' credit to junk, where it remained for two years. Such a rating makes investors wary of buying a city's debt and means borrowing is difficult and expensive.

Vadnais Heights' credit rating has since been revised to investment grade, and Mr. Watson said the city's finances are strong.

That kind of scenario, in which a sports facility becomes so much of a burden on local residents that a city or county stops paying, is what is worrying investors about bonds backed by hotel or rental-car taxes.

Julio Bonilla, a fixed-income portfolio manager at asset management firm Schroders, said bonds sold to build stadiums are among the more vulnerable in the nearly $4 trillion municipal bond market.

“Those issuers who are like built-it-and-they-will-come, whether it’s convention centers, museums, you name it—you really have to question the viability of something like that,” Mr. Bonilla said.

The Wall Street Journal

by Sebastian Pellejero & Heather Gillers

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As Covid-19 Closes Stadiums, Municipalities Struggle With Billions in Debt.

Pandemic crushes tourism and turns sports venues into a strain on local budgets

Two decades of using borrowed money to pay for new stadiums is coming back to haunt many cities across the country.

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Continue reading.

The Wall Street Journal

By Sebastian Pellejero and Heather Gillers

June 4, 2020 5:30 am ET

S&P: Activity Estimates For U.S Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure

Key Takeaways

- Based on our analysis of various factors influencing future activity levels for each U.S. transportation infrastructure subsector we believe the public transit and airport sectors are generally the most vulnerable to downward rating pressure in the near term.

- Our current 2020 and 2021 baseline activity estimates relative to pre COVID-19 levels show annualized declines of approximately 55% and 30% for public transit; 50% and 25% for airports; 45% and 15% for parking; 25% and 10% for toll roads; and 20% and 10% for ports. However, due to the high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak, the recession and their combined impacts on transportation infrastructure, our activity estimates will change as more data become available.
- Rating actions of one or more notches are likely for those credits we believe will experience materially lower, uncertain, or volatile activity in the medium to long term. Conversely, modest downward rating actions or none at all are possible for those credits we believe demonstrate recovery to financially sustainable but lower activity in the near term.
- Due to the challenges posed by the pandemic-induced recession and concerns of COVID-19 outbreaks and associated impacts, we believe activity levels could be unpredictable or materially depressed beyond 2020. Consequently, many of the negative outlooks on debt ratings of transportation issuers with this exposure are likely to remain on negative outlook beyond this year.

Continue reading.

4 Jun, 2020 | 19:55

S&P: Top 10 Investor Questions On Our Ratings Process

S&P Global Ratings strives to provide the financial markets with timely, transparent, and forward-looking credit ratings. Through this unprecedented time, we continue to engage with borrowers, investors, and other market participants to better understand the credit effects of the coronavirus-related economic shock. Financial markets function best when participants have as much up-to-date information as possible. Through our surveillance, we continue to update our forward-looking credit ratings to incorporate new information relating to the COVID-19 outbreak. We have also been publishing and making freely available our research commenting on the effects of the pandemic on credit to help market participants better understand our thoughts and views.

Here, S&P Global Ratings answers the top 10 investor questions we've received regarding the analytical decision-making process.

Does S&P Global Ratings rate through the cycle?
"Rating through the cycle" can be a misleading phrase that means different things to different people. If it's meant to suggest that S&P Global Ratings will wait for a change in conditions to play out before we adjust our credit views and change ratings, that's not what we do. Any time our fundamental forward-looking view of credit quality changes–regardless of where we are in an economic or credit cycle–we want our ratings to reflect that. We think markets function best when participants have as much up-to-date information as possible, and that includes credit opinions that evolve to reflect changes to market-related or issuer-specific credit factors. We note that regulations also require credit rating agencies to adjust ratings when their assessment of credit risk changes, in line with their published methodologies.

Our credit ratings have performed well historically as effective measures of relative creditworthiness. Our ratings default and transition studies covering the last 40 years have shown that, across cyclical economic downturns, higher ratings have generally shown lower default rates, and vice-versa. Higher-rated corporate issuers tend to have some combination of more-resilient business models, lower leverage, greater financial flexibility, and more ample sources of liquidity.

Is there a “right” time to change ratings?
As required by regulation, we change ratings if and when our view of credit risk changes, based on our analysis of relevant information and in line with our published methodologies. Sometimes these changes are the result of inherently unpredictable events and developments or significant shifts in the market conditions or issuer-specific credit factors.

Given the movement in economic and credit cycles, we expect credit ratings to change over time, as the creditworthiness of rated issuers and obligations rises and falls. That said, the same economic cycle, or period of stress, may have very different effects on the ratings of different issuers, depending on our view of how the cycle affects the creditworthiness of each. While all issuers and issues we rate are exposed to default and downgrade risk, those with comparatively lower ratings generally experience higher levels of downgrades, and in some cases defaults, than higher-rated entities, during periods of economic or financial stress.

In addition to a rating change, our analysts may also use, when appropriate, an outlook change or CreditWatch placement to identify the potential direction of a credit rating–providing markets with another indicator to better understand the evolution and credit context of a specific entity.

Does S&P Global Ratings need to change its ratings methodology to address this unprecedented situation?
We calibrate our criteria with the aim that it supports the issuance and surveillance of forward-looking credit ratings that are effective measures of relative creditworthiness across a variety of economic situations. For more information on how we look at stress scenarios in the context of our ratings criteria, please see “Understanding S&P Global Ratings’ Rating Definitions,” published June 3, 2009.

This doesn’t mean that our view of an industry or sector, for example, won’t change. Given the movement in economic and credit cycles, we expect ratings of issuers and obligations to change as their creditworthiness rises and falls. And as economies recover from the current crisis, we anticipate that many sectors may face new challenges, and our ratings (adjusted or otherwise) will continue to seek to incorporate our forward-looking opinion of those challenges and their potential effects on creditworthiness.

Before the current crisis, were ratings too high?
Credit ratings aren’t point-in-time assessments of creditworthiness, and aren’t designed to be static. As forward-looking opinions on, and relative rankings of, creditworthiness, ratings are designed to be dynamic and evolve to reflect changes to market conditions or issuer-specific credit factors. Our ability to have our ratings reflect on an ongoing basis more current information helps to make our credit ratings relevant to the markets.

It’s also important to note that among nonfinancial corporate borrowers globally, the median of new issuer ratings had declined two notches, from ‘BB-‘ at the onset of the Global Financial Crisis in 2008, to ‘B’ by the beginning of this year. While downgrades did occur in the intervening decade-plus, nearly 85% of new nonfinancial corporate ratings have originated at speculative-grade since 2017. As a result, one-third of corporate issuers in the U.S. and one-quarter in Europe are rated ‘B’ or below, indicating greater vulnerability to changes in economic and financial cycles (see “Historically Low Ratings In The Run-Up To 2020 Increase Vulnerability To The COVID-19 Crisis,” published May 28, 2020).

When economic conditions change, we may change our assessment of creditworthiness for the issuers most affected. The economic effects of the pandemic, along with depressed oil prices, have driven recent changes to our ratings as part of our ongoing surveillance. The effects have varied across sectors, reflecting the fact that some are more exposed to the effects of these conditions.

Changes in ratings throughout an economic cycle–either upward or downward–are an indication that ratings are doing what they are designed to do. S&P Global Ratings has been publishing and making freely available our research on the credit effects of the pandemic to help market participants better understand our thoughts and views.

How do analytical teams develop their views on individual ratings within the scope of S&P Global's overall macroeconomic forecasts?
Our economists set our high-level global and regional base-case macroeconomic forecasts–that is, what we see as the most likely macroeconomic outcomes given the information available at the time–with input from the ratings analysts. Our economists typically update these forecasts at least each quarter. In turn, ratings analysts consider these forecasts as inputs for their sector base-case forecasts.

During relatively benign periods of an economic cycle, our macroeconomic base cases may change incrementally as new information becomes available. These adjustments typically don't have much of an effect on ratings. During such times, entity-specific changes (e.g., acquisitions, divestitures, debt-financed share buybacks), or collateral performance (e.g., a material increase in defaulted loans, significant changes in delinquency rates, or reductions in net cash flows) tend to have a larger influence on ratings.

When economic cycles enter periods of stress, such as those that have been triggered by the coronavirus pandemic, changes to our base case macroeconomic assumptions can become relatively larger drivers in our assessment of creditworthiness. The effects of these changing assumptions are rarely even across industries or sectors–and so our ratings analysts consider how these changes will affect credit in their sectors broadly, and among the issuers in those sectors specifically.

When our macroeconomic base-case forecasts shift in a meaningful way, this can be a driver of ratings changes, especially those at the lower end of the ratings scale. We publish our macroeconomic forecasts regularly, so that markets can understand what high-level assumptions factor into our ratings. We also typically publish sector base cases–such as our forecasts for oil prices, auto sales, or for revenue per available room for the hotel sector–as well as our financial forecasts for individual companies.

At present, are you able to get sufficient information from company managements without meeting in-person to continue your surveillance of credit ratings?
We have more than 1,500 analysts around the world who conduct surveillance on industries and issuers daily. In doing so, during the course of a year they typically meet with managements, investors, and regulators, attend industry conferences, and research developments in their sectors. All of this provides them a unique ability to offer a differentiated view of credit risk.

While our analysts haven't been able to meet with managements in-person due to the pandemic, we've been able to rely on technology to maintain contact with managements. In addition, through our continuing ratings surveillance, our analysts receive ongoing financial information from issuers and various industry sources to formulate and support our forward-looking credit opinions.

How do you ensure that your view on each asset class is informed by behavior of other related asset classes–e.g., the link between corporates and CLOs or banks and structured finance?
S&P Global Ratings established regional Credit Conditions Committees (CCCs) just after the Global Financial Crisis. These committees meet quarterly and on an ad hoc basis to review macroeconomic

conditions in each of four regions–North America, Europe, Asia-Pacific, and Emerging Markets ex-Asia. The committees are made up of our economists, research teams, and ratings analysts from across all our ratings practices (e.g., corporates, structured finance, sovereigns) with discussions centering on identifying credit risks and their potential ratings effects in various asset classes, as well as financing conditions for businesses and consumers.

Through the current crisis, the CCCs have been meeting more frequently to monitor the effects of the pandemic on economies and markets. We routinely cascade the outcome of deliberations to ratings staff, as well as to the marketplace, through publications, slide decks, and webcasts.

What in S&P Global Ratings' view constitutes a default?
Generally, we can split "default" into two broad camps: 'D' (default) and 'SD' (selective default). We assign a 'D' rating when we believe an issuer will fail to pay all or substantially all of its debts as they come due. We assign an 'SD' rating when we believe the entity has missed payment on a specific issue or class of debt but will continue to make timely payment on other issues. We typically don't consider an issuer to have defaulted if we believe payment will be made within five business days, or, in cases of a grace period longer than that, if we believe payment will be made within the stated grace period or 30 days–whichever is earlier.

Sometimes, entities in distress look to restructure their debts, offering lenders less than originally promised. The prospect that lenders could fare even worse in a conventional default may motivate them to accept such offers. S&P Global Ratings treats these as defaults, assuming that two conditions are met: that the offer implies lenders will receive less than originally promised, and that the offer, in our view, is distressed, rather than purely opportunistic.

What about a government's call for debt moratoria, letting issuers defer payments of bank loan interest or principal?
In cases of government-initiated payment moratoria for corporate and government borrowers, we will consider whether lenders and investors benefit from systemic intervention designed to support and stabilize the financial system–for example, when it provides lenders relief from provisioning, capital guidelines, or liquidity guidelines. We may view the benefits of such intervention as providing lenders adequate offsetting compensation for payment deferrals on bank loans.

If a country's banking and financial system tangibly benefit from such measures as part of a government's support, we would view it as adequate offsetting compensation for lenders–and, thus, wouldn't typically regard an entity's deferred payment as a default.

This would hold true for bilateral bank loans or club transactions (credit lines or loans where a bank or a group of banks is/are the holder) within a single jurisdiction. However, we would likely take a different view if the deferral applied to payments on capital-market instruments because, unlike banks, capital market investors typically don't benefit directly from systemic intervention to the same extent as banks do. Nor would this apply when payments are waived or have been forgiven, meaning they are no longer payable, which we would generally view as default (see "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published June 4, 2020).

Don't downgrades just exacerbate the pressures (on liquidity, etc.) that issuers face?
Ratings are just one of many inputs that investors and other market participants can consider as part of their decision-making process. Our credit ratings are forward-looking opinions about credit risk, based on quantitative and qualitative analysis of available information, in accordance with our published criteria. As such, our ratings take into account, on a continuing basis, relevant changes in the economic cycle as well as other events that could affect credit risk, in accordance with our published criteria.

As discussed, regulation requires credit rating agencies to change their ratings when their assessment of credit risk changes. We can't ignore changes that weigh on an entity's creditworthiness because of the potential effects a downgrade may have. In fact, the International Organization of Securities Commissions Code of Conduct for ratings agencies states that rating agencies should not delay or refrain from taking a rating action based on its potential effect on an issuer or other market participants.

S&P COVID-19 Activity In U.S. Public Finance - Updated as of 6/3/20

Read the Updated S&P Report.

Fitch: Deficit Borrowing in Crisis Recovery Neutral to Negative for U.S. States & Locals

Fitch Ratings-New York-03 June 2020: More frequent use of non-structural measures such as deficit financing to offset the rapid and severe decline in revenues triggered by the coronavirus pandemic and related containment measures is likely for state and local governments, according to Fitch Ratings. Whether such measures will affect an issuer's credit quality will depend on the ability to regain financial resilience once recovery takes hold and on any long-lasting impact on gap-closing ability (comprised of revenue-raising ability, expenditure flexibility and reserves) and the long-term liability burden (debt and pension obligations relative to personal income). For rating stability, budgeting decisions must both effectively address the near-term crisis and be sustainable through future economic cycles.

If deficit financing is used as part of a comprehensive plan to protect fiscal stability and does not meaningfully affect the burden of long-term liabilities on an entity's budget and overall resource base, Fitch will view it as neutral to credit quality. However, Fitch envisions negative rating impact if the ability to rebuild financial resilience post-debt issuance is unclear — for example, the issuer becomes reliant on debt for operating needs on a regular basis or is not able to begin replenishing reserves once the recovery is under way — or if the debt makes the long-term liability burden more restrictive.

Short-term borrowing for timing mismatches between receipts and disbursements typically does not affect Fitch's view of long-term credit quality and is not considered deficit financing. However, Fitch does not believe that short-term borrowing will be an effective mitigant to the pandemic-related revenue declines because lost revenues are unlikely to be fully recouped over the term of the borrowing, making long-term deficit financing more likely.

Since the onset of the pandemic early in 2020, U.S. state and local governments have developed and revised budgets in anticipation of immediate and significant declines in revenues that are now beginning to show. Given the rapid and dramatic shift in revenue receipt — many entities that are now seeing severe declines experienced above-budget revenues prior to the onset of the pandemic — near-term measures to preserve liquidity and maintain essential services are necessarily different from those used in an expansion or even a moderate downturn.

Tools available vary depending on legal and practical constraints and include revenue-raising measures, expenditure reductions, use of reserves and long- and short-term borrowing. Long-term borrowing for operating needs, or deficit financing, is rare among the typically highly-rated issuers in Fitch's portfolio of U.S. state and local governments as it is perceived by many issuers as a last resort due to the costs to future budgets and potential impact on ratings.

While deficit financing is likely to remain uncommon among U.S. state and local governments, it is used regularly by other sub-national governments internationally as a means to address fiscal and economic downturns. For example, Canadian provinces, which are highly-rated by Fitch and operate in a federalism framework with some similarities to U.S. states, have regularly issued operating debt to manage service reductions and provide economic and fiscal stimulus during downturns and then paid it down during economic expansions. Canadian provinces typically bear more responsibility for service delivery and economic oversight than U.S. states.

New York City (Issuer Default Rating AA/Negative), Illinois (BBB-/Negative) and New Jersey (A-/Negative) are among the largest Fitch-rated state and local governments considering sizable deficit financings in order to address the anticipated severe fiscal implications of the coronavirus pandemic. Fitch will review each issuer's budget mitigation actions individually and will assess deficit financing in the context of the entity's overall strategy for addressing the current unprecedented situation. We recognize the difficult trade-offs most issuers now face between increasing their debt burden and employing other budget-balancing tools including tax increases or reductions in key services. Each decision will affect longer-term economic and fiscal recovery, and Fitch will assess the impact of these decisions on credit quality accordingly.

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Additional information is available on www.fitchratings.com

House Introduces Surface Transportation Package Bond Provisions not

Included in Initial Draft.

Today, the House Committee on Transportation and Infrastructure introduced the Invest *in* America Act, a reauthorization bill focused on surface transportation and environmental impacts. The bill is part of the original Moving America Framework, the House Democrats January infrastructure outline, however this package includes no bond provisions as the original framework provided.

The BDA continues to work with our partners on the Hill to ensure they know the importance of municipal bonds in any infrastructure package. **This includes last week engaging with the House Committee on Ways and Means and submitting a principles document to the Committee asking them to follow the Moving America framework and include municipal market priorities such as:**

- The Restoration of Advance Refundings;
- Expanding the use of PABs;
- Increase the BQ debt limit; and
- Development a new BABs program exempted from sequestration.

Bond Dealers of America

June 3, 2020

Government Job Losses Are Piling Up, and It Could Get Worse.

Jobs with state and city governments are usually a source of stability in the U.S. economy, but the financial devastation wrought by the coronavirus pandemic has forced cuts that will reduce public services — from schools to trash pickup.

Even as the U.S. added some jobs in May, the number of people employed by federal, state and local governments dropped by 585,000. The overall job losses among public workers have reached more than 1.5 million since March, according to seasonally adjusted federal jobs data released Friday. The number of government employees is now the lowest it's been since 2001, and most of the cuts are at the local level.

"With that comes a decline in essential public services," Lee Saunders, president of the American Federation of State, County and Municipal Employees, said on a conference call with reporters this week. For instance, "911 calls are taking a long time to be answered."

Clean drinking water and trash pickups also are being affected in some places, he said.

Tax revenue from businesses walloped by coronavirus restrictions has plummeted, forcing cuts by cities and states that rely on that money. It's likely to get worse in the coming months unless Congress delivers additional aid to states and cities.

Several states are projecting tax revenue will be down 20% or more for the fiscal year starting next month, and governments are facing rising costs resulting from the virus and the police and National Guard response to protests over racial injustice and police brutality.

The layoffs and furloughs are coming amid calls for governments and school districts to do more to respond to the outbreak — from hiring workers to find those who had contact with people infected with the coronavirus to additional janitors needed to sanitize schools and make them safe for students and teachers to return.

“It’s going to make it very, very difficult to reopen schools in the fall because you need more money, not less money to reopen,” said Randi Weingarten, president of the American Federation of Teachers.

In the Chicago suburbs, Lyons School District No. 103 laid off health aides at its six schools. One of them, Maureen Jacobsen, said she was told the workers, who give students medicine and first aid for minor injuries, were being laid off in anticipation of a new requirement that each school has a nurse. A district official did not return a call Friday.

So at 58, Jacobsen is working on her resume for the first time in 21 years. She said the students at Robinson Elementary will be affected by not having her there to help them when school resumes next fall.

“When they go back, they’re looking for the familiar,” Jacobsen said. “I could tell you that I had 280 kids in my building, and I knew their names.”

She may be on the leading edge of permanent layoffs for government employees.

The federal numbers do not provide precise breakdowns, but many of those out of government jobs so far have been temporarily furloughed. And some of the first to go were those whose absence would not be felt deeply when stay-at-home orders were in effect.

For instance, the Pittsburgh Parking Authority furloughed its three dozen enforcement officers and meter technicians. In Michigan, nearly two-thirds of state government workers have been furloughed through July. And in North Carolina, more than 9,000 state Department of Transportation employees have been told to take unpaid time off by June 26.

But union officials warn that the cuts could become deeper and permanent as budgets are ironed out. New Jersey Gov. Phil Murphy said his state alone could lose 200,000 government jobs.

Some permanent cuts already have been made or proposed. Last week, the Pennsylvania Turnpike Authority voted to lay off 500 toll collectors as part of a move to make the road system cashless. And California Gov. Gavin Newsom is calling for 10% salary cuts for many state government employees.

Lily Eskelsen Garcia, president of the National Education Association, said the impact will be biggest in lower-income areas.

“A 30% cut in a poor school district’s budget means you just lost your arts program, you just lost your sports program,” she said. “We are going to have to lay off one teacher in each grade.”

And the first workers to be cut also could be the most vulnerable.

“Very often the first people who will go will be all the administrative staff, the public works department and custodial staff and many, many people who are low paid, who are women, who are black and brown,” said Hetty Rosenstein, New Jersey director of Communications Workers of America, the largest union of state government employees there.

Unions and bipartisan groups are pushing Congress to send state and local governments more help quickly. Following a $2.2 trillion coronavirus aid package in March, the Democratic-led House last month approved an additional $3 trillion bill, which includes $1 trillion for governments. But Senate

Majority Leader Mitch McConnell has said his chamber will not agree to such as large amount — or anything quickly — as the economy reopens.

For Ashley Sims, a library assistant in Louisville, Kentucky, being furloughed when libraries were closed did not cause a financial strain. With a $600 weekly boost in unemployment benefits as part of a federal response to the crisis, she said her pay has been higher than when she was working.

But there are worries about permanent layoffs. Sims, who's president of the library workers union, said she may consider a voluntary layoff to save the jobs of some of her coworkers.

She said many who rely most on libraries are lower-income people and immigrants who can't afford computers and use them to search for work, among other tasks.

"It would be an incredible loss," Sims said. "Libraries are the lifeblood of communities."

By The Associated Press

June 6, 2020

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Associated Press reporters Gary Robertson in Raleigh, North Carolina, and David Eggert in Lansing, Michigan, contributed to this article. Mulvihill reported from Cherry Hill, New Jersey. Follow him on Twitter at http://www.twitter.com/geoffmulvihill.

Illinois Fed Deal Bodes Well for Future Transactions.

The Federal Reserve's first short-term note deal with the state of Illinois is a good start to the federal program that could jump-start its use with more local governments.

Tuesday afternoon, Illinois became the first issuer to use the Fed's $500 billion Municipal Liquidity Facility and as a large issuer, that could bode well for the program's short future.

"The MLF is being operated as if it's a start up asset manager so being able to do the credit analysis and the paperwork and everything else on the large state for a large amount of money is a good way to start out the facility," said Patrick Luby, senior municipal strategist at CreditSights.

A large trade of $1.2 billion of one-year, general obligation notes will be a new experience for the Fed since this marks the first time it has bought municipal notes. Going through it first with a large issuer should make transactions move faster for other issuers going forward, Luby said.

The maximum amount of eligible notes Illinois can sell through the program is just over $9.6 billion, and other states have caps set by the Fed as well. Illinois is choosing to start off borrowing much less than what is available to it.

Illinois has long planned to sell only $1.2 billion certificates to make up for a revenue hit in the current fiscal year. The state legislature late last month approved up to $5 billion of borrowing to aid the fiscal 2021 budget. The budget allows the state to go out to up to 10 years on the $5 billion if the MLF extends its current 36-month term.

"If we see more large issuers come in and borrow and indicate that they don't need to borrow as much as their maximum, that might free up some lending capacity that the Fed might make available to other issuers," Luby said.

That could mean the Fed could decide to extend the eligibility of issuers able to take advantage of the program, Luby said. Currently, counties with a population of 500,000 and cities with 250,000 can use the program directly.

On Wednesday, the Fed announced it was expanding the facility by allowing all U.S. states to have at least two cities or counties eligible to directly issue notes to the MLF regardless of population, though the direct access population limits remain in place.

As the program continues to be used and the Fed gets a greater sense of the appetite for borrowing in it, they could decide to widen those parameters further, Luby said.

The Fed recently expanded the maturity of eligible securities to 36 months from 24 months, but Illinois is only borrowing for 12.

"The fact that Illinois is borrowing for a shorter time period than they could is encouraging," Luby said. "It suggests comfort that they will be able to refinance that on reasonable terms a year from now."

Illinois could not go out any further with the notes as it issued the certificates with a one-year term as they were selling under the state's short-term borrowing statutes which require that the debt be repaid in the next fiscal year.

Dealer groups were pleased to see the first transaction go through the MLF program and said Illinois' borrowing was exactly the kind of transaction MLF was designed for.

Illinois will pay a rate of 3.82%, based on MLF pricing guidance, based on a comparable maturity overnight index swap. The issue is expected to close June 5, according to state officials.

Interest rates are calculated through spreads to the curve depending on the issuer's credit rating, ranging from 150 basis points for a triple-A rated issuer to 590 basis points for below investment grade issuers. Pricing aligns with the Fed's notion that it plans to serve as a backstop for issuers.

Financing with the Fed could also bring states like Illinois with pension woes closer to their pension funding goals. With Illinois tapping into the MLF, the extra financing could help Illinois and other states' pensions in the long term to get close to a good funding level for pensions.

Michael Imber, former commissioner for the Connecticut Pension Sustainability Commission and managing director at Conway MacKenzie, said the MLF should not be used as a way to save pensions, calling it a partial bridge to help, but said pension systems still need transformational change.

Imber also noted Illinois' attempt to get to the market in early May. The state initially intended to competitively sell the $1.2 billion in short-term notes last month, but did not go through with it.

The state could have sold the deal but faced a steep borrowing penalty ahead of the competitive sale, according to market participants.

"Their inability to get to the market in early May was a big wake-up call and I think that not just Illinois, but communities all over the country, have an opportunity to take advantage of the crisis," Imber said.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 06/03/20 01:18 PM EDT

Protests Raise Latest Question Mark for Municipal-Bond Market.

The U.S. municipal-bond market has been largely unscathed by the wave of protests against police brutality and racism, but the specter of delayed economic recovery will weigh on the outlook for munis, analysts said.

“We haven’t seen a market reaction, and it’s unclear what kind of economic impact will happen,” says Randall Gerardes, head of municipal strategy at Wells Fargo. Nevertheless, “civil unrest happening in major cities could have a limiting impact on how quickly the economic environment returns to normal.”

Since Memorial Day, when protests began in Minneapolis following the death of George Floyd in police custody, the iShares National Muni Bond exchange-traded fund (ticker: MUB), the largest ETF tracking muni-bond markets, is up 0.4%. The Minnesota Municipal Income fund (ETMNX) is up 0.16%, and the Nuveen Minnesota Municipal Bond fund (FYMNX) is up 0.39%.

As the protests continued, President Donald Trump threatened to deploy the U.S. military.

The protests could delay economic recovery at a time when beleaguered cities face financial woes. Nearly 90% of U.S. cities expect revenue shortfalls, The Wall Street Journal reported.

Meanwhile, the Congressional Budget Office said that gross domestic product isn’t expected to catch up to previously forecast levels until the fourth quarter of 2029.

“The recurring violent demonstrations and government reaction is an evolving situation,” writes Tom Kozlik, head of municipal strategy at Hilltop Securities. “Unfortunately, the increasing levels of social unrest across the country reallocated efforts and scarce resources away from the former focus of getting state, regional, and local economies back to some semblance of normalcy.”

For example, New York City plans to reopen by June 8, yet it also put in place a nighttime curfew that will last until June 7. “What that timeline looks like now is even more tentative,” Kozlik writes.

Given the unrest, local governments can’t afford to make many substantial cuts to core programs, even though revenues have been crushed.

Some relief will come from the Federal Reserve, which has started a new lending program for municipalities. Illinois announced Tuesday that it will sell $1.2 billion of one-year general-obligation certificates to the Fed’s Municipal Liquidity Facility.

Still, the Fed may not be able to help smaller municipalities. This week, Senate Banking Committee Chairman Mike Crapo (R., Idaho) worried that the Fed’s municipal facility is still too restrictive.

Meanwhile, other federal help is difficult to imagine. Since the House passed the $3 trillion Heroes Act in mid-May, there hasn’t been significant progress on potential relief to state and local governments, says Kozlik. On Friday, Senate Majority Leader Mitch McConnell (R., Ky.), who opposes sending more relief to states and municipalities, said the next coronavirus relief package will be the “final” one and described it as “narrowly crafted, designed to help us where we are a month from now, not where we were three months ago.”

Delays in reopening will hurt revenues further. With property at risk, there is also some academic evidence suggesting property values may be depressed. Meanwhile, violent protests can also cause a shortfall in municipal finances. After protests following the beating of Rodney King by four police officers in 1992, riots in Los Angeles had a lasting impact on the city’s economic performance, according to a 2004 study by Victor Matheson and Robert Baade.

In addition, lack of insurance coverage for smaller retailers will “cause delays and lengthen the amount of time it will take for municipal entities to return to financial equilibrium,” Kozlik says.

Barron’s

By Leslie P. Norton

June 3, 2020 10:10 am ET

Write to Leslie P. Norton at leslie.norton@barrons.com

Video Webinar On-demand: See Expert Panelists from UBS, BAM, BNY Mellon, and MacKay Shields

Municipal bond prices are stabilizing after weeks of nearly-unprecedented volatility when investors fought to understand the impacts of the COVID-19 pandemic on states and local governments. In this web seminar, a group of market veterans will discuss current market conditions and the key questions municipal bond buyers should consider as they manage their investments in the coming months, including topics like:

- How has investor behavior changed since early March, and what conditions are driving investment decisions now?
- What sectors of the market are most exposed to the economic downturn unleashed by the COVID-19 pandemic and the resulting mitigation strategies?
- How will the Federal Reserve’s new Municipal Liquidity Facility impact market liquidity and issuer credit quality?

Click here to watch.

municipalbonds.com

by Camila Campos

May 29, 2020

Where Some Investors See Red, These ‘Banks’ See Green.

States are tapping public financing institutions to advance a green agenda and create jobs as they plan their economic rebound from the coronavirus pandemic.

New Jersey adopted the idea in April, saying it will set up a green bank by the end of the year to finance environmentally friendly infrastructure. The state follows in the footsteps of Connecticut, New York and other states that provide loans and grants to fund carbon-cutting projects, such as community solar and energy efficiency retrofits.

As other lenders pull back during the economic downturn, taxpayer-backed green banks can aid recovery by keeping money flowing to construction projects, their supporters say. Green banks in New York and Connecticut, for example, have continued financing during the pandemic even as many homeowners and small businesses put projects on hold.

The New Jersey Economic Development Authority will seed its green bank — essentially a pot of capital, not an actual bank — with some $12 million in annual revenue it collects from the Regional Greenhouse Gas Initiative, a carbon cap-and-trade program. The project will prioritize projects that offer employment training and create jobs.

“Access to affordable financing and job training will be instrumental in helping New Jersey build back better,” said Pari Kasotia, Mid-Atlantic director for the nonprofit advocacy group Vote Solar. “By being able to invest in clean energy now, New Jersey’s low-income and environmental justice communities will also be more economically resilient to the next crisis, thanks to lower energy bills.”

While the banks aren’t new — Connecticut launched the nation’s first in 2011 — their numbers are growing. In 2019, the nine global members of the Green Bank Network committed a total of nearly $15 billion, mobilizing $50 billion in public and private capital. Now the coronavirus pandemic is giving them a chance to flex their muscle as other lenders rein in business.

Money is invested in projects that deliver environmental, health, social — and financial — returns. And the institutions are designed to demonstrate to Wall Street and local banks that an investment in clean energy can be a safe bet.

“At a time when we’ve had such a strong negative economic shock, all sources of capital are pulling back a little bit [but] green infrastructure is largely identified as a clear, safe and solid place to put money moving forward,” said Brian Sabina, the senior vice president of economic transformation at the New Jersey Economic Development Authority.

In New York, Green Bank President Alfred Griffin said his team is modifying deals with loan recipients to keep people on payrolls and provide flexibility around construction timelines to deal with Covid-19-related supply chain issues.

“The primary focus is to get those businesses back up and get those people back on those jobs,” Griffin said. “The needs of the market evolve, just like today, what we’re seeing in this unprecedented period.”

Bryan Garcia, president and CEO of the Connecticut Green Bank, said his group is resetting contract terms, restructuring borrower debt and allowing delayed payments. But the bank’s loans generally are low-risk and borrowers — especially low- and moderate-income families — are making payments.

“We had expected them to be more delinquent,” Garcia said, but “they’re paying their bills because they’ve seen the energy burden reduction benefit and they don’t want to lose it.”

New Jersey’s initial $12 million investment might not sound like much — New York established its bank with $1 billion in 2013 — but it will be “a ton of money” if it can lure private capital off the sidelines to launch new projects, said Jeffrey Schub, executive director of the Coalition for Green Capital, a nonprofit that advocates for the creation of green banks.

"It's obviously not enough to decarbonize the entire economy or reemploy the millions of New Jerseyans who are out of work, but it's the start you need to build off of because the hardest thing to find is the first investment of risk capital," Schub said. "It can be a way of priming the pump, getting private capital back into the market."

New Jersey could learn from New York and Connecticut's emphasis on investments in community solar for households that rent or just can't afford solar. Access to clean energy technology cuts utility costs and makes a market segment traditionally perceived as risky more attractive to private investors.

"At the end of the day, it is a wealth-building program," Garcia said. "It is reducing the amount of monthly budget a low-to-moderate income family spends on energy and allows them to save more of it and use it for other things."

But as states struggle to close budget gaps torn open by the coronavirus pandemic, green banks could be facing a challenge from some of the policymakers who created them.

Connecticut's green bank is funded by $26 million from the state's clean energy fund and about $4 million from Regional Greenhouse Gas Initiative proceeds. But in fiscal 2018 and 2019, state lawmakers diverted $28 million in clean energy funds and $4 million in greenhouse gas funds that were planned for the bank.

Bank officials filled the gap by issuing bonds, cutting operating expenses and transferring staff to an associated but independent nonprofit.

"We're now on a path to organizational sustainability," Garcia said. "The interest income we're receiving from financing projects using the clean energy fund and RGGI allowance proceeds is close to covering our operating expenses."

New Jersey officials must decide how to set up its green bank to deliver the biggest economic bang for the buck to withstand changing political tides. Part of this will entail figuring out what kind of entity the green bank will be: a specialized state entity, like New York's, an independent, quasi-public institution like Connecticut's, or something else altogether different.

New Jersey "will move like heck to crowd in as much capital as we can to get projects going," Sabina said. "It's going to be important as part of the recovery.

POLITICO.COM

By SAMANTHA MALDONADO 06/02/2020 08:14 PM EDT

GFOA Economic Indicator Dashboard.

GFOA created the following dashboards to provide one location for local government finance officers to easily access an up-to-date array of data/trends/indices to help them forecast revenue, expenditures, debt issuance, employment and other short- and long-run economic factors impacting their constituents. They are divided into six differernt dashboards based on type of data: (1) Covid-19 Prediction Model; (2) Employment; (3); Market; (4) Housing; (5) Income and Personal Debt; and (6) Local Tax Revenue.

Access the GFOA Economic Indicator Dashboard.

Cities’ Next Coronavirus Dilemma: Cut Essential Services or Take On More Debt

Shutdowns dry up local revenues, leaving leaders with no good options to keep cities running

Cities across the U.S. are hemorrhaging money as the coronavirus pandemic shut down commerce, entertainment and tourism activities that provide much of their revenue.

The shortfalls are hitting cities ranging from struggling towns to thriving metropolises. Nearly 90% of cities expect revenue shortfalls, according to a survey by two advocacy groups, the National League of Cities and the U.S. Conference of Mayors, which polled 2,463 cities and towns that are home to 93 million people.

Cities have long funded core services by capitalizing on their role as gathering places, charging to park in their downtowns, enter through their ports and eat in their restaurants. They are now having to keep running without any clear sign of when those revenues will return to normal levels.

Continue reading.

The Wall Street Journal

By Heather Gillers

May 31, 2020 11:00 am ET

Fed Posts Fee Schedule for Municipal Liquidity Facility.

The New York Federal Reserve Bank on Thursday posted a schedule of fees to be paid to BLX LLC, the administrative agent for its Municipal Liquidity Facility, the $500 billion borrowing program for states and local governments hurt by the coronavirus outbreak.

The schedule can be found on page 32 of the administrative agent services agreement. Other details for the program can be found here.

Reuters

May 28, 2020

(Reporting by Ann Saphir; Editing by Sandra Maler)

U.S. States, Cities May Snub Fed Lending Program Over High Rates.

CHICAGO — High borrowing costs will limit participation in a $500 billion U.S. Federal Reserve short-term borrowing program set up to address state and city revenue shortfalls due to the economic fallout from the coronavirus outbreak, analysts said.

While Illinois, the lowest-rated U.S. state at a notch above junk, passed a bill late last week authorizing borrowing up to $5 billion through the Fed's municipal liquidity facility (MLF), legislation is pending in few other states.

Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research, said sample purchase rates released by the New York Federal Reserve on Wednesday are much heftier than what highly rated governments can obtain in the U.S. municipal market.

The Fed "wants to be the lender of last resort," he said, adding that for lower-rated issuers like Illinois, the program makes more sense.

Sample rates for issuers rated BBB-minus or Baa3 like Illinois would range from 3.84% for a one-year loan to 3.85% for a three-year loan, according to the Fed. That is lower than the current 400 to 411 basis-point spread over Municipal Market Data's benchmark triple-A yield scale for Illinois bonds with maturities from 2021 through 2023.

A BofA Global Research report on Wednesday projected borrowing under the MLF with its current terms would only total $90 billion.

"If the Fed wanted to provide more relief to municipals we believe the Fed could lower the rate on the facilities, purchase more in the secondary market, and extend the tenor of their activity," the report said.

Besides Illinois, New York, California and Hawaii have bills directly related to the MLF, according to the National Conference of State Legislatures. New Jersey Governor Phil Murphy is pushing state lawmakers for emergency bond legislation.

New York's hard-hit Metropolitan Transportation Authority, which oversees the New York City subway and commuter trains serving the New York City area, last week asked the Fed for direct access to the program.

By Reuters

May 28, 2020

(Reporting by Karen Pierog; editing by Megan Davies and Leslie Adler)

Fed Publishes MLF Sample Purchase Rates.

Today, the New York Fed published the first sample purchase rates for the Municipal Liquidity Facility, and plans to release new rates each week solely to provide indicative pricing information to market participants.

The MFL Sample Purchase Rates can be viewed here.

Key Points:

- **Actual transactions will be priced according to the specifics of each transaction and may differ from these rates; and**
- **The indicative rates are not intended to be a measure of market conditions and should not be used as reference rates for other transactions**

Bond Dealers of America

May 27, 2020

Fed Continues ETF Buying, Signals Muni Lending Facility Imminent.

The Federal Reserve's weekly balance sheet update showed its holdings of exchange-traded funds continued to grow over the past week, while also signaling that a lending program for states and municipalities would soon be operational.

Fed holdings of ETFs invested in corporate debt rose to $2.98 billion as of May 26, according to the data released Thursday, up from $1.8 billion a week earlier. The ETF purchases, which began on May 12, are part of an emergency lending program designed to backstop large corporate borrowers amid the coronavirus pandemic.

Total assets held in the special-purpose vehicle set up for that program, known as the Secondary Market Corporate Credit Facility, was shown as a much larger amount. But a note with the release explained that this reflected the U.S. Treasury Department's equity contribution to the facility to shield the Fed from losses, of which 85% must be invested in non-marketable Treasury securities and reported in the net holdings of the program.

The Fed also added a line item for another emergency lending program for state and local government borrowers, known as the Municipal Liquidity Facility, which has yet to launch.

"On May 26, 2020, the Federal Reserve Bank of New York received Treasury's equity contribution for the MLF program," the explanatory note said.

Bloomberg Markets

By Matthew Boesler

May 28, 2020, 2:06 PM PDT

Bickering and Confusion Stall $150 Billion Meant to Boost States.

- **Lawmakers and governors wrestle for control as revenue plunges**
- **Federal rules and local politics induce spending sclerosis**

Weeks after states began receiving billions in federal Cares Act money in response to the Covid-19 crisis, lawmakers are fighting for control of it, interest groups are pushing for a piece of it, and governments are dragging their feet on spending it.

In a bailout that critics now say was badly designed, states with revenue strangled by lockdowns got at least $1.25 billion apiece, but aren't allowed to use the money for anything other than unbudgeted costs related to the pandemic, even in areas with relatively few Covid-19 cases.

Many are cutting budgets and anticipating dismissing public servants even as trade groups, farmers and activists lobby for investments in business and infrastructure. Proposals have ranged from nonstarters — like using pandemic relief dollars to build a new Alabama statehouse — to the worthy but pricey, like providing broadband to every Vermont student. Many states are simply delaying spending in hopes that the rules will change.

"On the one hand, we have this big pot of money, and on the other we are looking at cutting our budget by 8%," said Amy Shollenberger, a lobbyist with Action Circles, which represents poor and rural residents of Vermont. The state's Cares funding is a sum equal to almost one-sixth of the state's entire budget, but can't be used to fund it. "There's a lot of tension on both sides of that."

Some states are bailing out small business, farmers and nursing homes or considering building housing for the homeless. The windfall must be spent by Dec. 31 or returned.

"There's a lot of advocacy happening to retroactively make the coronavirus relief fund more flexible," said Michael Wallace, program director for community and economic development for the National League of Cities. "There's a huge mismatch of resources to need right now."

The Cares Act passed in March, sending $150 billion to states, large local governments and tribes with little instruction on how to use it. The largest states got the most, including more than $9 billion for California. But each got at least $1.25 billion, regardless of how much it suffered from the pandemic.

For example, Alaska has 412 confirmed virus cases and 10 deaths. It got $1.25 billion that it can't use to plug its $1 billion budget hole. The state is sending a large percentage of its Cares funding to cities and counties too small to qualify for direct federal relief; the U.S. Treasury permitted the use a month after the Cares bill passed.

But local governments are also limited to spending the money on pandemic costs, which has led to complaints and confusion. In Louisiana, which also is sending money downstream, so many local government leaders flooded a state-hosted Zoom conference on the money that they crashed it.

Hasty Work

The Cares Act came together quickly and messily in Congress, in an attempt to stimulate an economy ravaged by lockdowns and the resulting loss of jobs and tax revenue. Senate Republicans — particularly Majority Leader Mitch McConnell — insisted the money for states shouldn't be used to address budget woes. McConnell has said as recently as this week that he doesn't want to bail out governments that he said had been fiscally irresponsible or that underfunded their pensions.

He has suggested that states should be allowed to file for bankruptcy instead. That could be disastrous for the $3.9 trillion municipal bond market, which pays for things like roads, public transportation and schools.

States across the U.S. are now looking at budget cuts. Michael Leachman, vice president for fiscal policy at the Center on Budget and Policy Priorities in Washington, estimates $765 billion in revenue shortfalls through fiscal 2022 for all 50 states combined. Because states have to balance budgets every year, their only option is cuts, which will delay economic recovery, he said.

The Cares Act rules are encouraging strapped states to look at big-ticket spending that can be justified as pandemic related: overhauling nursing homes or prisons where the virus spreads, helping businesses, stocking up on masks and gloves, or expanding broadband for online school.

And legislatures and governors have been fighting for control of the money.

Some battles are partisan. Kansas's Republican legislature met all through the night last week to pass a bill limiting Democratic Governor Laura Kelly's powers, including her control of the money. In New Hampshire, Democrats went to court to stop Republican Governor Chris Sununu from spending Cares money on his own — and lost. Colorado Republican lawmakers accused Democratic Governor Jared Polis of a spending "power grab."

In two states, the grab for cash was internecine. Mississippi's Republican-led legislature passed a bill taking away Republican Governor Tate Reeves's control of the money, prompting an angry back-and-forth.

"I cannot do my job without the funds that the Trump administration secured for and expects governors to use," Reeves said at a May 1 press briefing, before eventually agreeing to a compromise.

So far, Mississippi lawmakers have allocated $300 million for small business aid.

In Alabama, Republican Governor Kay Ivey first ceded authority to the Republican legislature, then took it back after lawmakers proposed spending $200 million on a new statehouse. Her plans for the $1.9 billion include $300 million for rural broadband and $200 million for the state's notoriously overcrowded Department of Corrections.

Other states are delaying spending, while lobbying federal officials for permission to spend the money on their budgets. Some of those officials appear to be listening. A group of Republican senators led by John Kennedy of Louisiana met with President Donald Trump this month to propose loosening the restrictions.

The U.S. House of Representatives passed a new $3 trillion stimulus bill May 15 that would include more than $1 trillion for state and local governments with fewer strings than the Cares Act money. The Senate has yet to take it up, and many provisions are seen as anathema to Republicans.

The delays, bickering and confusion are likely to persist without more clarity or flexibility, said Josh Goodman, senior officer with the Pew Charitable Trusts.

"The biggest part of the conversation is what they can't use it for," Goodman said.

Bloomberg Politics

By Fola Akinnibi and Margaret Newkirk

May 28, 2020, 4:30 AM PDT

— With assistance by Vincent Del Giudice, Christopher Brown, and Laura Davison

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How Should States, Localities Spend CARES Act's Coronavirus Relief Fund?

The CARES Act includes a $150 billion Coronavirus Relief Fund (CRF) to help states, populous cities and counties, tribal governments, and U.S. territories cover unanticipated costs from the COVID-19 pandemic and its economic effects. Working from Treasury Department guidance and an associated "Frequently Asked Questions" document on the CRF's permissible uses, the fund's recipients should maximize its impact to help meet the extraordinary fiscal challenges they face.

Unfortunately, Treasury's guidance forbids using the funds to offset revenue losses due to the pandemic. That's a serious problem since state, local, and tribal revenues have dropped precipitously and federal relief to date (including the CRF) is far less than needed. States alone face an astonishing $765 billion in shortfalls through June 2022, and revenues for localities, tribes, and Puerto Rico and other territories are also way down. Policymakers should quickly approve much more fiscal relief and rescind the CRF restrictions.

That said, states, localities, tribal nations, and territories should make the most of the CRF to meet the immediate crisis. As with all spending choices, states and other fund recipients should consider, in responding to the crisis, how to build anti-racist, equitable, and inclusive communities and an economic recovery whose gains are broadly shared. Fund recipients should:

Continue reading.

Center for Budget and Policy Priorities

by Michael Leachman
Vice President for State Fiscal Policy

MAY 28, 2020

Coronavirus Will Have an Unequal Impact on School Budgets.

Districts that can largely support themselves with local tax dollars are in a better position as the economic downturn continues.

As the coronavirus-driven slowdown pummels state budgets, the education funding gains many school districts saw in recent years—or were about to see—are in peril.

In Hawaii, where public schools are run by the state, the governor has proposed a 20% cut in teacher pay starting next month. Kansas lawmakers are likely to suggest education cuts to close a $650 million budget gap just a year after the state resolved a decade-long lawsuit over insufficient school spending. Wichita Public Schools, the state's biggest district, has already approved $18 million in budget cuts, while projecting a total budget hit of nearly twice that amount.

But, as it has with other facets of life and policy, the Covid-19 slowdown is affecting school districts differently. In Boston, public schools actually expect a $26 million spending boost for the upcoming school year. In Montgomery County, Maryland, County Executive Marc Elrich is contemplating raising taxes to pay for staffing increases, primarily for public schools.

Continue reading.

Route Fifty

By Liz Farmer

MAY 28, 2020

A Looming Financial Meltdown For America's Schools.

Austin Beutner looked haggard, his face a curtain of worry lines. The superintendent of the second-largest school district in the nation sat at a desk last week delivering a video address to Los Angeles families. But he began with a stark message clearly meant for another audience:

Lawmakers in Sacramento and Washington, D.C.

“Cuts to funding at schools will forever impact the lives of children,” Beutner said less than a week after California’s governor called for emergency cuts in education spending. The harm children face from these cuts, Beutner warned, “is just as real a threat to them as is the coronavirus.”

Continue reading.

IOWA PUBLIC RADIO

By CORY TURNER • MAY 26, 2020

Fitch Ratings Updates Criteria for US HFAs: Mortgage Insurance or Guarantee Fund Programs.

Link to Fitch Ratings’ Report(s): U.S. Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria

Fitch Ratings-New York-27 May 2020: Fitch Ratings has published an updated criteria report titled ‘U.S. Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria.’ The report replaces the existing criteria dated July 2, 2019.

The scope of the report has been updated to include local housing finance agencies (HFAs) that are similar to state HFAs in terms of portfolio size, debt outstanding and management oversight. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The full report is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Fitch Ratings Updates Thermal Power Project Rating Criteria.

Link to Fitch Ratings' Report(s): Thermal Power Project Rating Criteria

Fitch Ratings-London-27 May 2020: Fitch Ratings has published an update of its "Thermal Power Project Rating Criteria".

The update includes removing material that is covered separately in the related "Infrastructure and Project Finance Rating Criteria" report, such as details in relation to debt structure, and the completion risk key rating driver assessments covered in the "Completion Risk Rating Criteria" report. The update further harmonises relevant sections with the "Renewable Project Rating Criteria" report. Overall, the intention is to reduce repetition and description of fundamentals that are not directly unique to this sector rating methodology.

Fitch does not expect any rating changes as a result of the updated criteria. The report replaces the version dated 24 March 2020 and is available at www.fitchratings.com or by clicking on the link above.

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S&P: A Bumpy Recovery Is Ahead For Hospitals And Other Health Providers As Non-Emergent Procedures Restart

Table of Contents

Key Takeaways

- Credit analysis will distinguish near-term business disruption from the long-term credit story.
- The credit impact for health care services is neutral or negative.
- Many health service providers are receiving significant operating support and liquidity assistance, but not enough to overcome the extent of near-term cash flow and liquidity decline.
- Elective procedures are beginning to ramp up slowly, although geographically unevenly.

Continue reading.

S&P: Hospitality Sector Rating Outlook Revised To Negative Amid COVID-19 Impact.

(**Editor's Note:** In the original report published April 3, 2020, bond ratings on Dickinson, Glendale, Hillsborough County, and Orlando were misstated in the table as a result of an administrative error. A corrected version follows.)

FARMERS BRANCH (S&P Global Ratings) April 3, 2020–S&P Global Ratings revised the outlook to negative from stable and affirmed numerous long-term ratings and underlying ratings on bonds secured by priority-lien tax revenue pledges. The outlook revision and rating action are taken on bonds secured by hospitality taxes (including hotel occupancy taxes and sales taxes on prepared food and beverage sales). The negative outlook reflects our view that the affected credits face at least a one-in-three likelihood of a negative rating action over the intermediate term (generally up to two years).

As the COVID-19 pandemic persists and the social risk from the spread of the virus grows, the implications on the leisure and hospitality sector have been acute and dramatic. Restrictions on travel and consumer activity–driven by social distancing and stay-at-home orders intended to flatten the curve and slow the viral infection rate–have led to hotel booking cancellations and deferrals, convention and conference cancellations, and the widespread closure of bars and restaurants. Although the closure decisions are prudent, in our opinion, the health and safety aspect of this action in the near term will materially affect coverage, financial results, and liquidity, which we believe might deteriorate further as a result of the onset of a global recession, and is reflective of our analysis of environmental, social, and governance risks. While the precise impact on bonds secured by hotel occupancy taxes and by sales taxes on prepared food and beverages is unknown, we believe that the decline in pledged revenue will be precipitous and likely last well into the second quarter.

With almost 200 million Americans either under shelter-in-place orders or being urged to stay at home in a concerted effort to contain the spread of COVID-19, we believe that the longest economic expansion in U.S. history has come to an abrupt end. (See "It's Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain," published March 27, 2020 on RatingsDirect.) S&P Global Economics now forecasts a global slowdown in GDP growth, with a base case assumption of a 1.3% decline in U.S. GDP in 2020 and annualized declines of 2.1% in the first quarter and 12.7% in the second quarter. We also believe that there is a high risk to credit if the coronavirus outbreak widens substantially in the U.S., with the impact being a protracted and more prolonged period of coronavirus-containment measures that further amplify the current U.S. economic recession.

Continue reading.

The State Pension Crisis Goes Beyond the Big Blue States.

Politicians and fund administrators everywhere wasted the reform potential of an 11-year bull market.

Legislators from Illinois and New Jersey provoked an outcry in April when they asked Washington to bail out their failing pension systems. Senate Majority Leader Mitch McConnell offered instead to let states file for bankruptcy. His message: Don't expect aid for problems that have little to do with fighting the novel coronavirus and the economic slowdown accompanying it.

The crisis in state pension systems is a result of decades of fiscal mismanagement. The problem, however, goes well beyond deeply indebted Illinois and New Jersey. Many state and municipal retirement funds have been on an unrelenting downward trajectory for 20 years, failing to gain ground even during the 11-year bull market that followed the 2007-09 recession. Now, with the economy in tatters because of the coronavirus, more government pension systems are close to a crisis, and taxpayers are running out of time to demand a solution.

The figures are startling. At the end of the 1990s, most pension systems were fully funded, with no debt. But the steep market declines of 2000 and 2001 drove funding levels down to 89% by 2003, and debt soared to $233 billion, according to Pew Research. Though pension administrators assured taxpayers the funds would rebound, the plunge in financial markets in 2008 sent systems reeling again. By 2010 state funds were on average only 75% funded, and unfunded liabilities had tripled to $750 billion. Years of subsequent market gains haven't reversed the trend. By 2018 state pension debt had reached $1.2 trillion, and the latest market downturn has almost certainly sent it soaring again.

This fiscal nightmare stems in part from politicians' habit of increasing employee benefits while markets are booming, thereby squandering fund surpluses. California's Legislature gave workers rich new benefits in 2000, allowing some 200,000 employees to retire with full pensions at 55 and granting Highway Patrol officers pensions equal to 90% of their final salaries. Although executives of the California Public Employees' Retirement System, which was 120% funded at the time, assured legislators they could pay those benefits without additional contributions from governments, subsequent market downturns have forced the state and local governments to increase their annual contributions to $15 billion last year, up from $362 million in 2000. Calpers' funding level, meanwhile, shrank to 70% last year—and is even lower now.

Politicians have consistently neglected to contribute to these systems even during good budgetary times, preferring to fund more popular programs. While the economy was expanding from 2015-17, 27 states failed to put enough money into pensions systems to reduce their debt, according to a Pew survey.

Meanwhile, elected officials and pension administrators have endorsed overly optimistic economic assumptions that made their systems look affordable. In 2007, for instance, most state funds projected an annual return of 8% or more on their investments. Under intense criticism, many have now pared down projected returns to 7.25%, but doing so has added billions of dollars of debt. Here's a reality check: Over the past decade, state pension systems averaged only 6.8% actual returns, according to Wilshire.

Even before the most recent market drop, a striking number of funds were already at or dangerously close to crisis levels. A 2019 study by Milliman identified a dozen state and big municipal plans with less than half the funding needed to fulfill their obligations, and another 14 with funding below 60%. That included the Pennsylvania school retirement system (54%), South Carolina's retirement system (54.1%), the Massachusetts teachers' system (54.8%), and the state plans in Colorado (58.8%) and Missouri (59%).

This is worrisome because, as Calpers officials admitted after a 2015 review of their operations, once a pension system slips below half-funded, it may be impossible to save it no matter how much taxpayers contribute. The money that should be earning market returns simply isn't there. That's why it's urgent for taxpayers to demand reforms now.

One alternative, proposed in 2015 by a bipartisan New Jersey study commission, would close the state's deeply indebted defined-contribution plan and migrate workers into a cash-balance program that provides a modest annuity roughly equivalent to Social Security, supplemented by a 401(k)-style savings plan. The Garden State's powerful unions blocked that plan, but other states might consider adopting it.

Another option, enacted by Utah, allows workers to join their defined-benefit plan only if they agree to pay any extraordinary costs incurred from market downturns. Otherwise, workers enroll in a 401(k)-style contribution plan that limits taxpayer liability.

For some pension funds, stronger medicine is necessary. The New Jersey teachers' retirement plan is 26.5% funded, according to Milliman, and pays nearly $1.7 billion more in pensions every year than it receives in contributions, Although Mr. McConnell backed off his state-bankruptcy plan, in 2016 the Manhattan Institute proposed model legislation that would allow states to place their pension systems alone in bankruptcy to reorganize.

There are other options for reform, too. But they all require something that's been missing: political will. Something else that's needed, time, is running out.

Wall Street Journal Opinion

By Steven Malanga

May 29, 2020 6:34 pm ET

Mr. Malanga is a senior fellow at the Manhattan Institute and senior editor of City Journal.

[How State Bond Banks Could Supercharge Fiscal Federalism.]

With an expanded role, they could serve as an efficient conduit between local governments of all sizes and federal financial resources for revenue shortfalls and infrastructure.

The COVID-19 pandemic has hit states, counties, cities, school districts and other jurisdictions and public agencies like a financial tidal wave. In March, the municipal bond market became fiscal flotsam. Fortunately, the Federal Reserve System and Congress acted more swiftly and decisively than ever before and built a makeshift breakwater.

Most Governing readers are well aware of the multi-trillion-dollar federal bailouts of large and small companies, which were funded by Congress and implemented through the Treasury Department and the Federal Reserve. But some may not know that the Fed also surgically injected unprecedented liquidity into the municipal bond market. Public officials at the state and local level need to learn how this works and what it portends for a more resilient future in muni finance. Then the opportunity to fully leverage fiscal federalism becomes more obvious.

State bond banks, which consolidate local bond issues to garner better interest rates and lower issuance costs, could supercharge the Fed's municipal-market operations and kickstart local infrastructure projects whenever Congress opens its construction checkbook. But to function as hubs in the intergovernmental finance network, the bond banks would need to expand their charters.

Continue reading.

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | MAY 26, 2020 | OPINION

[Biggest Muni Rally in Decade Drives Yields to Cusp of Zero.]

- **One-year tax-exempt debt is yielding 0.05% in test of new lows**
- **Rally may test negative rates that Wall Street's ruled out**

Interest rates have fallen so quickly and so steeply in the $3.9 trillion municipal-bond market that states and cities can borrow virtually for free.

Even with the economic fallout of the coronavirus pandemic driving local governments toward what may be their biggest fiscal crisis in decades, a rally in the bond market is leaving yields flirting with zero.

That marks a dramatic shift from two months ago, when yields were surging as waves of panicked selling raced through Wall Street. Municipal securities are now headed toward their biggest monthly gain since 2009, driving yields on top-rated bonds due in 2021 to just 0.05%, down from as much as

2.8% in late March.

The massive move in part tracks the Treasury market, where yields had already been hovering near zero, said Jason Diefenthaler, director of tax-exempt portfolio management at Wasmer Schroeder. Short-term securities have also benefited from two Federal Reserve programs aimed at municipal debt, including one that could lend as much as $500 billion to governments facing budget shortfalls.

“It was just a matter of time,” he said.

The drop marks a test of how low short-term rates can go — and whether they could flip negative. Firms including Bank of America Corp., the biggest underwriter, have dismissed the likelihood of that, since that would erase the tax advantages that are a principal reason for buying municipal debt instead of other securities like Treasuries.

Moreover, the individuals who are the primary investors wouldn’t have much incentive to buy debt that doesn’t yield anything, Diefenthaler said. He said that dynamic could prevent short-term yields from dropping much more.

Still, he added: “Anything’s possible.”

Bloomberg Markets

By Amanda Albright

May 27, 2020, 10:30 AM PDT Updated on May 27, 2020, 12:10 PM PDT

Muni Bonds Having Strong May, But Are They A Good Long-Term Investment Amid Budget Deficits?

KEY POINTS

- **Cities and state across the country hurtle towards the worst fiscal crisis in decades**
- **The bond rally in May offset the big loss the asset class suffered in March**
- **State and city governments will balance budgets which were hammered by a plunge in tax collections**
- **Municipal bonds — debt securities issued by state, municipality or county governments to finance capital expenditures — are poised to deliver their best monthly performance in more than a decade in May 2020 – despite the chaos triggered by the coronavirus pandemic and business shutdowns.**

As cities and state across the country hurtle towards the worst fiscal crisis in decades amid an unprecedented economic collapse, the $3.9 trillion muni bond market has gained 2.96% for the month through Friday, according to the Bloomberg Barclays Muni Bond index.

The bond rally in May offset the big loss the asset class suffered in March – as yields fell to 60-plus year lows (yields drop when bond prices rise). On Friday, the yield on the benchmark 10-year tax-exempt muni debt tumbled 5 basis points to 0.83%.

In May through Friday, the iShares National Muni Bond ETF (MUB), the largest exchange-traded fund tracking muni-bond markets, gained 1.03%.

In April, MUB dropped 1.38%; while in March, the ETF plunged 2.98%.

Bloomberg reported that the May rally has been facilitated by an inflow of cash into muni bond funds – even the riskiest ones – due to efforts by the Federal Reserve to protect the markets from another liquidity crisis.

In addition, as more states start to reopen some businesses and coronavirus deaths appear to be leveling off, investor sentiment has improved.

Patrick Luby, a muni bond analyst with CreditSights Inc., a financial research firm, said, state and city governments are expected to seek to balance budgets which were hammered by a plunge in tax collections.

"The serious and thoughtful way in which many [muni bond] issuers are beginning to wrestle with what are going to be really painful decisions from a financial and human perspective is constructive to the [bond] market," Luby said.

Most state governments are predicting significant budget shortfalls in the coming years, which will no doubt mean massive layoffs to cut costs.

International Business Times

By Palash Ghosh

05/26/20 AT 8:27 AM

[Municipal Bond Yields Show Investors Willing to Pay Premium for Debt that Addresses Climate Change.]()

Municipal bond investors are increasingly confident that as climate change accelerates, cities will be forced to prioritize projects that seek to mitigate the consequences, according to a [newly published analysis of bond yields]() I conducted.

The findings suggest investors believe such climate-related investments are safer – and more likely to be repaid – than other types of long-term city projects that may have less of a chance of happening because of limited funds. This can be seen in the higher prices – and lower rates of return – investors are willing to pay for longer-term municipal bonds certified by the [Climate Bonds Initiative]() compared with similar debt that doesn't carry that certification.

Why it matters

Cities and other governments have for years been fiercely debating what if anything to do about climate change. My research shows that there's a reward, in terms of relatively low financing costs, to pursue long-term climate action now. It suggests investors have already acknowledged the consequences of human-induced climate change are real and have created a financial incentive for those cities that are trying to adapt. And this could help fuel a faster transition to a low-carbon world.

What still isn't known

It’s unclear if this climate project premium holds for other types of debt, such as that issued by companies or federal governments. The market for Climate Bonds Initiative-certified bonds is still quite young, with about US$120 billion issued worldwide since 2014 – just a drop in the bucket for a bond market worth more than $100 trillion.

What other research is being done

Beyond the market that I looked at, there is a much larger market for self-labeled “green” and climate-aligned bonds that are not certified. Researchers are trying to determine if investors are willing to pay a premium – dubbed a “greenium” – when bonds are issued by corporations or governments to fund any environmental or climate-related projects. Currently, the results have been inconclusive, as different studies have reported conflicting results. If a premium on all green and climate-aligned bonds exists, this would supply further evidence of an investor subsidy provided to borrowers who claim to use their proceeds for environmental or climate-related purposes.

theconversation.com

by Carolin Schellhorn

May 26, 2020 8.16am EDT

Retirement Communities Financed by Munis Pushed to Edge by Virus.

- **Costs soar for equipment and staff, while occupancy falls**
- **Some potential residents fear moving in, one operator says**

The coronavirus, especially lethal to the elderly, is pushing a growing number of retirement communities into financial turmoil and fueling distress in the municipal bonds that financed them.

Henry Ford Village, a 1,040-bed community in Dearborn, Michigan, has incurred “extraordinary expenses,” to contain an outbreak of the new coronavirus, which has killed at least 26 residents. Unable to accept new occupants, the operator is using a stimulus loan to make payroll and drew on a debt service reserve to make a May 15 interest payment.

StoryPoint Senior Living has canceled tours at four new facilities in Indiana and Ohio and reported it doesn’t expect occupancy to increase through July. StoryPoint, projecting a $5 million operating loss this year, wants bondholders to forgo interest payments for the next 12 months.

“We believe the senior housing industry has a very bright future,” said Brian Stoy, an executive with Common Sail Investment Group and StoryPoint Investments, said in a May 12 call with bondholders. “Short term, however, we are playing defense and for the next 18 months we are in the fight of our lives until there’s a vaccine for Covid-19.”

Signs of Distress

Since the beginning of March, at least five retirement communities have missed a debt payment, drawn on reserves or violated bond covenants, according to data compiled by Bloomberg. At least one assisted living facility and one nursing home operator have missed debt payments.

More than 80% of the $42 billion municipal bonds issued for senior housing have financed continuing care retirement communities, which offer independent housing, assisted living and skilled nursing on one campus. Most units at CCRC's are for seniors who live by themselves and need less care, so the facilities have largely avoided the tens of thousands of deaths at nursing homes and assisted living facilities.

But they're grappling with higher costs to protect patients and unable to generate revenue through new admissions. The facilities rely on a constant flow of entrance fees from new seniors who move into independent units after residents move on to higher levels of care or die.

Spending on masks, gowns, overtime and additional screening for staff has soared. Moratoriums on elective surgeries mean patients aren't coming in from hospitals for rehab after hip or knee replacements. Seniors who want to move in can't because the facilities are locked down to protect current residents, while fear is causing some prospects to put plans on hold.

'Murky' Demand

"There's been a lot of quote unquote headline risk in this space, obviously, given the market's susceptibility and the relatively high mortality rate," said Matthew Stephan, head of muni credit research at Columbia Management. "The post-Covid senior living demand picture of the next year is murky at best."

To stay afloat, many operators have sought loans through the Payroll Protection Program under the CARES Act. The Trousdale Foundation, which borrowed $165 million in 2018 in part to acquire four communities in Ohio, Florida and Tennessee, received a $7.6 million loan, according to a bond filing. Occupancy has declined to 69% as of May 12 from 72% at the end of March.

"Our assisted and independent living census has been disrupted as many potential residents are in fear of moving into any facility in light of the spread of the virus," Trousdale said in an April 2 bond filing. Trousdale drew $4.3 million from debt service reserve funds to make an April 1 bond payment.

These facilities in the U.S. number about 1,900, according to the National Investment Center for Seniors Housing & Care, and about 75% are operated by non-profits. By contrast, assisted living facilities and nursing homes are typically owned by for-profit companies.

There were 15,600 nursing homes and 28,900 assisted living facilities in the U.S. in 2016, according to a report by the Centers for Disease Control. One-third of all coronavirus deaths in the U.S. are nursing home residents or workers, according to a report by the New York Times.

Boomer Bet

The pace of municipal bond offerings for CCRC's ramped up in the last four years as, operators, betting on a tidal wave of retiring baby boomers took advantage of record demand for higher-yielding securities to finance projects.

Even before coronavirus, the CCRC sector was among riskiest in the state and local debt market. Since incoming residents frequently need to sell their homes to move in, the projects are vulnerable to real estate downturns. Two-thirds of the facilities charge entrance fees, which averaged $335,000, according to a 2018 report by commercial real estate services firm CBRE Group Inc. Residents also pay service fees of $3,250 per month on average.

Since 2010, 80 borrowers in the municipal retirement sector have defaulted, used reserves to cover payments or violated covenants, more than any other sector according to Municipal Market Analytics. Almost half of the $35 billion in CCRC debt outstanding is unrated and almost $3 billion is distressed or in default, according to data compiled by Bloomberg.

Invesco Ltd is among the biggest investors in municipal bonds issued for retirement communities, which can carry tax-exempt coupons as high as 10%. At the end of March, almost $1.2 billion of Invesco’s $9.4 billion high-yield municipal fund was invested in the sector.

Pre-virus Woes

Bonds with a face of value of $385 million in the Invesco fund were classified as distressed as of March 31, including securities issued by Henry Ford Village, StoryPoint and Trousdale, according to data compiled by Bloomberg. Not all of those borrowers missed debt payments. Some violated bond covenants, such as falling short of having a certain number of days cash on hand. Most were struggling before the pandemic.

“This is a high yield sector and there are going to be communities that struggle from time to time as in all sectors,” said Mary Jane Minier, head of opportunistic credit strategy at Invesco. “You need to look at each individual community.”

Borrowers in Invesco’s portfolio have shown “incredible resilience,” in protecting residents and employees, said Minier. Some continue to accept new residents, she said.

“Their meals are getting delivered to their door, their groceries are getting delivered to their door. They’re getting wellness checks. They have a sense of community even while observing social distancing,” Minier said.

By itself, the impact of the coronavirus is unlikely to trigger a wave of defaults among CCRC’s, said Louis Robichaux, a senior managing director at Ankura Consulting Group, who has worked on several dozen CCRC restructurings.

However, those struggling before the virus will almost certainly face additional financial stress that could result in additional defaults and restructurings. Older facilities facing more competition, and those with a larger percentage of assisted living, memory care and skilled nursing units are most at risk, he said.

“It’s not my sense there are hundreds of communities on the bubble, but there are some,” Robichaux said. “Bondholders may find themselves without many attractive options other than to negotiate the best forbearance arrangements possible, and ride this out.”

Bloomberg Law

by Martin Z. Bruan

May 28, 2020

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William Selway

[New York Federal Reserve Releases Municipal Liquidity Facility Application and Form Documents: McGuireWoods]

On May 18, 2020 the New York Federal Reserve released additional information regarding the Municipal Liquidity Facility (MLF) program, including (i) a sample application to the MLF program and (ii) multiple form documents including a note purchase agreement, a note purchase commitment, a continuing disclosure undertaking, and Eligible Issuer certifications. The sample application and form documents are provided for informational purposes to assist an Eligible Issuer's understanding of the process and requirements of the MLF program. This announcement follows the Federal Reserve's release of a pricing index for the purchase of Eligible Notes by the MLF.

As described in prior guidance provided by the Federal Reserve, Eligible Issuers must first complete a notice of interest (NOI) and e-mail the NOI, with the required supporting documentation, to MLFnoi@blxgroup.com. Once the NOI is submitted by an authorized officer of the Eligible Issuer, the MLF administrative agent will send an email confirmation to the authorized officer. The NOI will be reviewed for completeness and compliance with the initial MLF program eligibility requirements. If the NOI is approved, the MLF administrative agent will email the authorized officer an NOI approval along with an invitation to complete an application. Applications should be submitted by invitation only.

The Note Purchase Commitment (NPC) and Note Purchase Agreement (NPA) forms provide guidance on the competitive bid and direct placement process for the MLF. For competitive bids, the purchaser of Eligible Notes (the "Purchaser") must send a completed and executed NPC to the Eligible Issuer within three business days after the Purchaser has approved the application. The NPC includes forms of its exhibits, which consist of the notice of results of the competitive bid, a certificate of the officer of the Eligible Issuer, the continuing disclosure undertaking and the language for the notice of sale. For both competitive bid and direct purchases, the Purchaser must send an executed NPA to the Eligible Issuer on (i) the pricing date for a direct purchase without competitive bid and (ii) within three business days after the Purchaser has approved the application for a fallback purchase following the competitive bid process. The NPA form contains bracketed provisions that should be included in the competitive bid structure, including references to the preliminary official statement and final official statement. The NPA form also provides templates of its exhibits, including the notice of results of the competitive bid, the certificate of the officer of the Eligible Issuer, the continuing disclosure undertaking and the language for the notice of sale.

The continuing disclosure undertaking form is consistent with the requirements of Rule 15c2-12 but also sets forth additional disclosure obligations including the requirements to provide (i) quarterly cash flows and financial reports, (ii) notice of any changes in long-term ratings applicable to the security for the Eligible Notes, and (iii) not less than six months prior to the maturity of an Eligible Note, a written report explaining the Eligible Issuer's plan to pay the Eligible Note at maturity.

The form documents also include an Eligible Issuer certification packet that provides new insight into the certifications required of Eligible Issuers. To participate in the MLF, the Eligible Issuer must certify (i) as to its solvency pursuant to Section 13(3) of the Federal Reserve Act and the Federal Reserve System Board of Governors' Regulation A; (ii) that it is unable to secure adequate credit accommodations from other banking institutions pursuant to 13(3) of the Federal Reserve Act and the Federal Reserve System Board of Governors' Regulation A; (iii) that it is not subject to the conflict of interest requirements in Section 4019 of the CARES Act; (iv) that it is not subject to the U.S. business requirement in Section 4003(c)(3)(C) of the CARES Act; and (v) that the closing documents are identical to the forms submitted with its application. The Federal Reserve retains the right to modify the form documents.

Any additional questions regarding this process may be directed to MLFinfo@blxgroup.com.

McGuireWoods has published additional thought leadership analyzing how companies across industries can address crucial business and legal issues related to COVID-19.

May 20, 2020

New York Fed Releases Application Materials for the Municipal Liquidity Facility.

The Federal Reserve continues to take steps to operationalize the Municipal Liquidity Facility, today releasing a sample application and form documents and certifications with detailed information for potential issuers who wish to sell eligible notes to the MLF.

The Municipal Liquidity Facility Application materials can be found here.

This follows last weeks Federal Reserve announcement of the release of the Notice of Interest (NOI) for Eligible Issuers to express interest in selling notes to the special purpose vehicle (SPV) Municipal Liquidity Facility LLC.

The BDA will continue to provide MLF updates as they become available.

Bond Dealers of America

May 18, 2020

Fed Chair: Municipal Liquidity Facility to Launch by End of Month

Today, Federal Reserve Chairman Jerome Powell and Treasury Secretary Steven Mnuchin virtually testified before the Senate Committee on Banking providing a quarterly update on the Main Street Lending Program and the Municipal Liquidity Facility as required by the CARES Act.

***The BDA continues to be active with the Fed and all letters can be found here.**

Included in his testimony, Powell indicated that the MLF will be fully operational by the end of May, and that they expect the program to "have a big impact on the markets."

The Chairman also acknowledged a recent letter by a bi-partisian group of Senatorsurging the Fed to intervene in the secondary municipal market, but gave no indication they were preparing to do so. These follow Kent Hiteshew's comments yesterday that the MFL is open for business and is able to accept NOI's and applications from approved issuers.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

May 19, 2020

[The Federal Reserve’s Municipal Liquidity Facility: Providing Financial Relief but at What Cost? - Dinsmore & Shohl]

State and local governments throughout the nation are struggling to address the financial impact of the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, enacted by Congress on March 28, 2020 appears to provide insufficient funding, and many state and local governments need more federal financial assistance. Guided by its mandate from Congress, the Federal Reserve created the “Municipal Liquidity Facility” (MLF) to provide up to $500 billion in short term loans to “eligible issuers,” which include states, certain counties and cities, and multi-state entities. Participating counties must have a minimum population exceeding 500,000 residents and participating cities must have a minimum population exceeding 250,000 residents. Only one issuer per state, county, city, or multi-state entity is eligible to participate in the program. The Federal Reserve published a list of eligible issuers (click HERE for the list). Eligible issuers may use the proceeds to support additional counties and cities not identified as eligible issuers. The Federal Reserve is currently accepting letters of intent for eligible issuers. The MLF will be administered on a first-come-first-served basis.

Under the MLF, the Federal Reserve will lend to a special purpose vehicle (SPV) on a recourse basis, which will then purchase notes directly from eligible issuers or act as a backstop to notes competitively sold. While the MLF provides market access to many state and local governments in need of cash-flow relief, the program is not a grant program, but instead intended to help facilitate short-term borrowings. The Federal Reserve has stated that the MLF is intended to serve as a backstop rather than a competitive market participant. In other words, the MLF is a facility of last resort after a state or local government has engaged in an earnest attempt to access the market and has no alternatives or inefficient alternatives. Other important features of the MLF are identified below.

MLF Purpose, Duration, and Note Eligibility:

- Proceeds may be used only to (i) manage the cash-flow impact of income tax deferrals resulting from an extension of an income tax filing deadline, as well as to manage reductions in tax and other revenues and expenses related to the pandemic, and (ii) pay principal and interest on obligations and use the proceeds to buy similar notes issued by “political subdivisions and instrumentalities of the relevant state, city, or county.”
- The MLF program ends on December 31, 2020, unless the Federal Reserve and the U.S. Treasury Department decide to extend the MLF.
- The maximum maturity of the notes is three years.
- Notes eligible under the program include tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes.
- Eligible notes may be taxable or tax-exempt obligations.
- Eligible notes may be subject to prepayment, and cannot be refunded after December 31, 2020.

MLF Cost and Issuer Eligibility:

- Each eligible issuer that participates in the MLF must pay an origination fee equal to 10 basis points of the principal amount borrowed.
- Certain minimum ratings criteria will apply, which ratings criteria will be used to produce a tiered

pricing scale when it comes to determining the ultimate rate of interest.

- Pricing for eligible notes will be in the form of a fixed interest rate determined on the date of pricing, which rate will be based on an overnight indexed swap rate plus a spread which correlates to the rating of an eligible issuer.
- Eligible notes from each eligible issuer cannot exceed 20% of an eligible issuer's general revenues and utility revenues for fiscal year 2017.

Click HERE for a copy of the latest materials in connection with the MLF.

Dinsmore & Shohl LLP – Bradley N. Ruwe and Marc T. Kamer

May 20 2020

Forewarned Is Forearmed: Tips And Pointers For Municipal Bond Workouts

I hate to be the bearer of bad news in these difficult times, but investors in high yield municipal bonds: brace yourself for defaults and bankruptcies. The Covid-19 pandemic has already compelled a spate of municipal bond defaults and at least one bankruptcy. More are coming. Don't say you weren't forewarned.

The good news is that forewarned is forearmed. If you find yourself face to face with a municipal bond workout, here are several factors to keep in mind.

Avoid a Bankruptcy Filing

Having gone through three bankruptcies, including testifying in Federal Bankruptcy Court, I draw on these experiences to offer this advice to borrowers and investors: avoid the bankruptcy option. Either Chapter 9 for municipalities or Chapter 11 for private entities (including nonprofits), bankruptcy is time consuming, expensive for all parties involved, often creates polarization when you need cooperation, and the results are usually not much better than had something been negotiated between the stakeholders. This is particularly true for Chapter 9 filings, where the case law is not well defined. You definitely don't want to be on the wrong end of setting precedent. Read this piece, *What 'Adult Entertainment,' Puerto Rico and Chapter 9 Bankruptcy Have In Common* for a well-detailed breakdown of the issues in Chapter 9 filings.

The Upside: If you absolutely cannot find any other alternative than a bankruptcy filing, strive to go to court with a "pre-pack" in hand. A pre-pack is a bankruptcy where all the issues are resolved and the path forward is clear. All you need is the judge's gavel for approval.

Essential Services

Project financings for hospitals, senior care, senior living projects, and public works utilities are generally attractive to investors because they are, or are perceived to be, more secure because they provide essential services to their community. They are "'too essential to fail."

But that becomes a double-edged sword in a workout. The fundamental economics of a single-purpose project can be an impediment. Essentiality of purpose can mean an inelasticity in demand. The community—be it defined by geography, demographics, or needs—still requires services. Water needs to flow, waste needs to be processed, electricity needs to be generated, patients need care. Operations have to be kept open, even if at a minimum. This limits budget flexibility. The only place for big savings may be in debt service, either reduced or deferred.

The Upside: The good news for bondholders is that essentiality of services still presents an economic safety-net. The financial issues bedeviling the borrower may be temporary (even if the ‘temporary’ time frame is counted in months or years). A resolution taking a long view (and why not, since the bondholder isn’t getting paid in the interim anyway) can usually be found and with higher recovery.

Tax-Exempt Financing

Tax-exempt financing comes laden with regulations and restrictions, mostly from the U.S. tax code governing the “use of proceeds.” This limits workout options. Original maturities can’t be extended, a new debt structure might fall under reissuance rules, and the bonds can’t be advance refunded. Moreover, the only capital source on the table is debt. Unlike the seemingly endless permutations of equity structures, debt can only be parsed so many ways.

The Upside: Even though capital options are restricted to debt in one form or another, there are still a few ways to restructure debt. For example, deferred payments are always popular because they give relief to the borrower but preserves principal and interest for the bondholder. Additionally, senior debt that is in default under the existing cash flow might offer some payment if bifurcated into a senior-subordinate security structure. Another alternative is a current refunding with taxable debt. Freed of code restrictions, it opens up operational doors precluded under tax-exempt bond rules. The trade-off between flexibility and the premium of taxable loan’s higher rates is worth considering.

Fixed Assets

Sitting at the table of one workout I was involved in, a simple solution emerged—well, at least in my head: put the over-built project on wheels and roll it down the road to a better and bigger market. But alas, the facility wasn’t on wheels. It was a very fixed asset. This highlights two problems bondholders and borrowers alike face with a fixed asset—immobility and illiquidity.

Most of the time, as much as you wish you could move a project, you just can’t. Moreover, it’s not just fixed in place. It’s fixed in size. When a project is just too big for the market, it can be hard to shrink. An overbuilt continuing care retirement center or for-profit student housing can close wings or floors, but it rarely can be made physically smaller. There is no shrinkage. A special purpose or special design facility—think proton therapy projects—is bound equally by location and purpose. The fixed nature of the asset also defines its budget to large degree. Empty units still need to be heated and cooled, physical plant maintained.

The immobility, special purpose, and fixed size also limits liquidity. Yes, there are business brokers for CCRCs and college campuses—if supply and demand exist, a business will emerge to fill the niche. But given this is a small market with limited buyers and few comparable transactions, the bid-ask spread can be wide, particularly if the project hasn’t worked as built. However, an appraisal based on the traditional discount present value of cash-flows won’t work when there is no cash flowing. The appraisal valuation then turns to real estate value. That’s a valuation mismatch. Bond values are based on payments from operating businesses, not underlying real estate. The underlying real estate value is usually considerably lower than a going-concern’s value. Ouch.

The Upside: In some cases, particularly in senior living or housing, there may be some renovation or remodeling to reduce the number of units and right-size both the units and overall facility for the marketplace. The fees per unit may still remain unchanged—or have to be decreased—to attract residents, but better to have full occupancy at a lower rate than an empty facility at a higher one.

Another consideration is repurposing space for other types of revenue producing services. Acquisition by a national or regional service provider might provide an alternative as well. A new and better-known brand name on the entrance sign improves reputation immediately as well offers greater resources, both for services and management. None of these options are simple, but for bondholders, finding a solution generating some cash flow is better than no cash flow. For borrowers, the project keeps all or most of its original intent. Everyone still sorta wins.

Government Funding

When it comes to public projects, there is usually federal or state funding in the revenue mix—reimbursements, set fees, grants, revenue-sharing, loan guarantees, and so forth. While the fairly steady, if regulated, revenue stream is initially attractive for creditors, the strictures it imposes in a workout quickly makes it a yoke. In healthcare or senior services, the facility can be limited in the fees it charges or caps service payments. Revenue-sharing, grants, and loan guarantees apply more to secondary schools, including charter schools, and higher education institutions. Cuts in funding cannot be readily made up with higher taxes or higher tuition.

Problems can emerge if the organization has not been well run or, worse, if there is financial malfeasance. With those government funds almost inevitably comes a first and prior security lien in one form or another, priming whatever the bondholder thinks they are secured by in their well-crafted bond documents. For example, with health care providers, there are Medicare and Medicaid "claw-backs." Miscategorized filings resulting in over-reimbursement can trigger a demand for the project to repay the overage. Discovering this during a workout can rent asunder any agreement between bondholder and borrower.

In higher education institutions, there is the risk of running afoul of Title 4 funding (federally backed student loan programs). These days, unacceptable student loan default rates can trigger a claw-back. Moreover, when a college or university closes, all of their federal funding has to be accounted for. If the school has poor management and weak administrative controls, this forensics exercise becomes a very time consuming and unavoidable process—which only drags out finding any solution. And this assumes no irregularities are found, which, inevitably, there are.

The Upside: If the bondholders suspect malfeasance or even simple ineptitude on the part of the borrower in causing the default, federal and state overseers can be powerful allies in compelling information disclosure. While understandably wary of government intervention (the jokey nostrum "'we're from the government and we're here to help" can be all too real), it is a valid cudgel to wield if a borrower is dragging its feet on releasing information. The borrower may see it as a bluff, knowing most bondholders don't want yet another stakeholder in the mix, but if a borrower is being particularly obstinate, the bondholders don't have much to lose given they won't get much by doing nothing.

Low Interest Rates

As any first year MBA learns, the cheaper the capital source, the higher the valuation. Think of it like a home mortgage. You can afford a lot more home at a 2% mortgage rate than you can at a 5% mortgage rate. Same as with a new project financed by municipal bonds. A project that didn't work at a higher interest rate, suddenly, with the wave of a Harry Potter-esque magic wand of "Lowerus Raterus," becomes tenable.

Well, tenable at least in spreadsheets and financial models. As the real-world kicks in, the magic fades and the borrower and bondholder alike come to discover a facility can be overleveraged just as much, if not more, with a lower interest rate as it can with a higher interest rate.

The workout problem in a low rate environment is that there isn't a lot of flexibility. When a bond with an 8% coupon defaults, reducing the coupon to 4% can mean a material difference on the income statement, giving some breathing room for operations. But in a low interest rate environment, there isn't much room to go if you are already near the floor. Negative rates aren't really an option.

That leaves the only other financial lever—reducing, deferring or restructuring principal. The relationship between total debt service and principal reduction, regardless of the form it takes, is readily calculated. Whatever dollar-amount operations are needed for it to succeed, it's going to come out of principal.

The Upside: Even in a low inflation environment, the future value of principal loses value with every passing year. For bondholders, better to give in on principal and preserve what really matters: tax-exempt income in hand now. It may be cold comfort, but at least the effective rate on the remaining restructured bonds is going to be higher than the rate on the initial financing—and probably more accurately reflects the risk the bonds should have been valued on in the first place.

The Snarling Attorney

Unfortunately, in some workouts, a borrower opts to go the belligerent route. They retain a firm of litigious counsel—"lawyering-up," as the phrase goes. Usually this is initiated by a management with something to hide (the 'good-offense-is-good-defense' strategy), an over eager attorney (usually one not familiar with workouts or bankruptcy), or someone on the Board who read *Barbarians At The Gate* or watches too much *Shark Tank* and now wants to prove they can play the hard-nosed Wall Street game.

I've faced a few of these. It wastes a lot of time, money, and energy that otherwise might be used productively. Plus, it never works. But in a default, you're not getting people at their best. Emotions run high, the impulse to fight overwhelms reason. So, you have to deal with it.

Faced with this strategy, investors might quickly find the borrower using the essentiality of their purpose as leverage, portraying bondholders as greedy Wall Streeters trying to extract their pound of flesh from a this poor distressed nonprofit. Because of the demographics they serve, borrowers might also bring political pressure to bear as well. Knowing that investment firms generally don't want their brand and reputation besmirched, borrowers try to gain an upper negotiating hand by leveraging press and politics.

The Upside: Of course, bondholders are not without recourse. Big firms have deep pockets to fund protracted litigation is they so choose. Counter threats of forensic audits and suits against boards of directors for negligence in oversight have been known to level the playing field pretty quickly. After all, mud-raking and accusations of wrongdoing can go both ways. While institutions may briefly lose a little reputational luster, individuals can lose homes, savings, and livelihoods. But that usually only drags out the misery and, while bringing some short-term emotional satisfaction, does not generate much economic satisfaction.

Bondholders are urged to keep in mind they have another option a borrower does not: selling the bonds to a vulture fund. Yes, the vulture fund is going to pay a pennies-on-the-dollar-bo-tom-basement price. But ridding one's self of the aggravation of protracted dealings with a hostile and intransigent borrower may be worth the cost.

The borrower would be wise to keep this in mind before entering into any hostile strategy. A large, well-respected financial firm has the ability and resources to find a compromise for an outcome best for all stakeholders. On the other hand, a vulture fund generally doesn't care about borrowers' essential purposes or services. They don't care if they are dragged through the mud, having been down in the mud many times. All they want is profit. They know how to give twice as hard as they get and have no compunction about putting the borrower's reputation at risk. After all, the borrower is in default, already on shaky ground to start throwing stones. To mix metaphors.

Summary

For sure, Covid-19 is a "black swan" event, or at least one hopes so. But to dismiss it as once in a lifetime occurrence without learning some lessons would be foolish. No matter what the event, black-swan, market, or rate environment, the best protection against an unwanted financial outcome for both borrowers as builders and bondholders as lenders, is to have a clearly defined and quantified risk assessment methodology for project and investment, respectively. Be it a city council, nonprofit board, financial advisor or fund investment committee, this is the one strategy that continues to prove successful time and again in protecting the interests of all stakeholders. It is the core of being a fiduciary, to protecting and meeting the needs of clients, residents, patients, students, or whatever community you are serving.

And that's what's really essential.

Forbes

by Barnet Sherman

May 19, 2020

Fitch: US Federal Aid to Public Finance Sectors Provides Limited Relief

Fitch Ratings-New York-21 May 2020: The US federal government has provided funding to various public finance sectors under a number of different programs in the past few months in response to the economic contraction triggered by the coronavirus pandemic. While programs will help the public sector to bridge short-term cash flow gaps, states and local governments and other public enterprises will face longer-term budget pressures as the economy gradually recovers, Fitch Ratings says. We discuss federal aid measures in our latest special report U.S. Public Finance Entities Benefit from Federal Aid Although Needs Persist.

The Coronavirus Aid, Relief and Economic Security (CARES) Act provides the most wide-ranging funding, allocating funds to states and local governments, higher education, not-for-profit hospitals, public transit, airports, and housing, among other entities. Conditions on the use and distribution of the aid limit its usefulness in addressing fiscal challenges in some cases. The $150 billion Coronavirus Relief Fund established under the CARES Act provides payments to states and local governments, generally on a per-capita basis. This fund is only to be used for coronavirus expense reimbursement rather than to offset revenue losses.

The CARES Act also establishes a $31 billion Education Stabilization Fund supporting both K-12 and higher education. Colleges and universities are receiving $14.3 billion, which will help relieve budget pressures as a result of the pandemic and subsequent decisions to shut down campuses. However, these funds are not sufficient to fully compensate for revenue losses and increased expenses.

Fitch expects the not-for-profit hospital sector will suffer significant operational losses in calendar year 2020, primarily from a loss of revenues for elective surgeries and procedures. While funding under the CARES Act will help offset not-for-profit hospital losses associated with the coronavirus outbreak, we believe that it will not make them whole. Most of the disbursements for the $100 billion earmarked for healthcare providers in the CARES Act were already distributed, with $50 billion allocated as a general distribution to Medicare providers. Additional funding was allocated to hospitals in the areas most affected by the coronavirus, reimbursement for coronavirus-related treatment of the uninsured, and rural health clinics and hospitals.

Grants of $25 billion to public transit agencies under the CARES Act are expected to offset a meaningful amount of revenue losses and cost increases but will not solve some of the longer-term imbalances. The aid amount is large relative to transit agency budgets, equaling roughly a third of total transit agency spending in the most recent year. While the funding helps, it does not signal an end to the stress on the sector. Estimates of the total cost of the crisis are continuing to increase. Forecasts of sales taxes and other economically sensitive transit revenues are particularly subject to revision, which could re-widen transit budget gaps narrowed by the CARES Act.

Approximately $10 billion in aid provided to airports under the CARES Act will help offset declines in airline and passenger related revenue. These figures have seen several negative revisions since the outbreak materially impaired airport passenger traffic. Fitch expects airports to take varying courses of action with this assistance, ranging from rate and rent relief to air carriers and concession tenants to directly offsetting operating costs and upcoming debt payments.

Supplemental funding for certain housing programs is also provided under the CARES Act to help prevent erosion of providers' existing liquidity, and payment relief measures for homeowners will help buffer single and multifamily loan performance.

Projected State Shortfalls Grow as Economic Forecasts Worsen.

As economic projections worsen, so do the likely state budget shortfalls from COVID-19's economic fallout. We now project shortfalls of $765 billion over three years, based on the new projections from the Congressional Budget Office (CBO) of yesterday and Goldman Sachs of last week. The new shortfall figure, significantly higher than our estimate based on economic projections of three weeks ago, makes it even more urgent that the President and Congress enact more fiscal relief and maintain it as long as economic conditions warrant.

CBO now projects that unemployment will peak at 15.8 percent in the third quarter of this year (July-September), fall to a still-high 11.5 percent by the last quarter, and remain at an elevated 8.6 percent at the end of 2021. Goldman's new projection estimates that unemployment will peak at an astonishing 25 percent this quarter and still remain at 8.2 percent at the end of 2021. These CBO and Goldman estimates, considerably more pessimistic than their estimates of early April, account for the aid that Washington has already enacted for businesses, individuals, and state and local governments. Goldman's projections also assume that policymakers will provide additional fiscal relief.

Our projection of $765 billion in shortfalls over state fiscal years 2020-22 — much deeper than in the Great Recession of about a decade ago (see chart) — is based on both the historical relationship between unemployment and state revenues and on the average between the latest CBO and Goldman projections. It covers state budget shortfalls only, not the additional shortfalls that local governments, territories, and tribes face.

Continue reading.

Center on Budget and Policy Priorities

by Michael Leachman

MAY 20, 2020 AT 12:30 PM

Moody’s: Bond Defaults Loom As Covid-19 Hits Senior Housing Hard

No other U.S. public finance sector has been hurt more by the Covid-19 pandemic than senior housing and care, according to Moody’s Investor Service.

“While many hospitals, entities with bonds secured by taxes frozen during the economic shutdown, and other types of enterprises are seeing some pinch, no other sector has seen the singular confluence of both revenue and expenditure difficulties as the elder housing sector,” Moody’s Vice President Dan Seymour wrote in a commentary released Friday.

Since March, at least nine borrowers in the senior housing and care sector have drawn from debt service reserve funds, violated bond covenants, or requested a discussion with bondholders to renegotiate terms, Moody’s found. The firm analyzed filings with the Municipal Securities Rulemaking Board.

Continue reading.

seniorhousingnews.com

By Tim Mullaney | May 18, 2020

BlackRock Doesn’t See Virus Pandemic Causing State, City Bankruptcies.

BlackRock Head of Municipal Bonds Peter Hayes examines the impact of the coronavirus pandemic on the municipal bond market. He speaks on “Bloomberg Surveillance.”

Watch video.

Bloomberg Surveillance – TV Shows

May 18th, 2020, 4:50 AM PDT

Cities and States Need Funding Help. It Won’t Come Cheap.

A broad range of U.S. companies are now getting some form of support from the Federal Reserve’s purchases of corporate bond funds. But state and local governments have to wait longer—and clear arguably higher hurdles—to access central-bank financing.

The disparity has already had consequences for bond markets. And it could continue to weigh down municipal bonds' performance relative to corporate bonds.

In Tuesday testimony to Congress, Fed Chair Jerome Powell said that the municipal liquidity facility should be fully operational by the end of this month. Before they can apply to borrow from the Fed, municipalities must first file a "Notice of Interest" with the central bank, and the New York Fed posted the materials necessary to send such a notice last week.

Continue reading.

Barron's

By Alexandra Scaggs

Updated May 20, 2020 8:00 am ET / Original May 20, 2020 5:00 am ET

Economic Recession and Mounting Strain on Unfunded Liabilities.

We often hear the phrase that the American economy is a consumer-driven economy and consumer spending makes up a large portion of the American GDP.

There are four main components when calculating the American GDP: personal consumption expenditures, business investment, government expenditures and net exports. Of these four components, consumer spending makes up 70% of the GDP calculations.

Now, with the current reality of COVID-19, the shelter-in-place orders throughout America are serving the biggest blow to this 70% component of the American GDP. In addition, we have mounting unemployment numbers, businesses are unable to sustain the financial pressures, and there is fear of the unknown pandemic until we have a viable vaccine or treatment in place.

For the local and state governments, we have started to see governors and local elected officials putting forward budget cuts due to the lost revenues and increased expenditure to tackle the COVID-19 threat. One important component that ties the struggles of all three levels of governments – federal, state and local – is again the consumer spending that in-turn generates the sales tax revenues. The revenue loss and lackluster performance of the financial markets is going to worsen the pre-existing issues for local governments. The main one being the unfunded pension liabilities.

In this article, we will take a closer look at how an economic recession can impact the unfunded pension liabilities for local governments in the United States.

Continue reading.

municipalbonds.com

by Jayden Sangha

May 22, 2020

[The States With the Worst Job Losses.]

Labor Department data released on Friday shows the states with the highest unemployment rates in April, and how many jobs were lost that month as the coronavirus upended the economy.

Nevada was the state with the nation's highest unemployment rate in April at just over 28%, followed by Michigan and Hawaii, which both had rates around 22%, the Department of Labor reported Friday.

Unemployment rates in 43 states set record highs in April compared to Labor Department data that goes back to 1976. The coronavirus outbreak, along with the business closures and stay-at-home orders adopted to control it, have led to a sharp economic downturn that is driving widespread job losses across most industries and states.

The national unemployment rate was about 14.7%, the Labor Department said, up 11 points compared to April of last year.

Continue reading.

Route Fifty

by Bill Lucia

MAY 22, 2020

Fitch: U.S. Public Finance Entities Benefit from Federal Aid Although Needs Persist

Read the Fitch Special Report.

Will a Pandemic Recovery be Dependent on Municipal Bonds?

The Federal Reserve is doing what it can to shore up the bond markets, but one submarket it shouldn't forget is municipal bonds. A pandemic recovery could be predicated on how the muni space reacts in a post-coronavirus world.

"The municipal bond market has for decades served as a vehicle for assisting localities in reviving local industries and abandoned facilities by providing incentives for investors to support such high-risk efforts. In this time of a serious economic setback, we see Congress focusing on rescuing existing businesses, which is an appropriate response. There is another response that should be considered," Richard Lehmann wrote in Forbes.

"Looking into the future, we see an almost universal agreement that we need to restore many products and activities that were off-shored to China," Lehmann added. "We now recognize that this was a mistake. I'm sure that a reshoring of many critical products will take place over the next few years, but this process can be immensely sped up by involving local governments with municipal bond issuing authority."

Continue reading.

ETF TRENDS

by BEN HERNANDEZ on MAY 20, 2020

Can The Municipal Bond Market Be A Key To Our Pandemic Recovery?

The municipal bond market has for decades served as a vehicle for assisting localities in reviving local industries and abandoned facilities by providing incentives for investors to support such high-risk efforts. In this time of a serious economic setback, we see Congress focusing on rescuing existing businesses, which is an appropriate response. There is another response that should be considered.

Looking into the future, we see almost universal agreement that we need to reshore many products and activities that were off-shored to China. We now recognize that this was a mistake. I'm sure that a reshoring of many critical products will take place over the next few years, but this process can be immensely sped up by involving local governments with municipal bond issuing authority.

Private industry will follow proposals by Congress to bring back China-based activities but motivated primarily by economic incentives. And as with all such legislative-based solutions, it will be a slow and inefficient one. Why not a solution that gets thousands of people involved immediately and with little delay?

There are thousands of manufacturing companies that have been damaged, even irreparably, by this pandemic. Many may be facilities that can be converted to manufacturing goods Congress determines to be of national interest to manufacture here. Think of the ventilator manufacturing facilities that sprang up overnight once it became a national priority.

Give a promise of import tariff protection to a legitimate but distressed company with the capabilities to manufacture a targeted product and you have the nucleus for a company's revival and collateral for muni-debt financing. You may even go so far as to have the Federal Reserve Bank buy those bonds. Similar deals can be structured for entirely new ventures for areas with closed facilities and idled work forces.

A first step in such a program is for the government and industry to identify which products should be given priority and offered tariff protection. The objective in all this is to use a national interest goal to resolve an economic crisis, both of which arose from the pandemic.

Forbes

by Richard Lehmann

May 19, 2020

[A Wild Ride Through Muniland.]

Usually a relatively stable part of the market, munis have seen an uptick in volatility in the past several months.

Municipal-bond strategies saw record inflows in 2019, as investors poured a massive net $117 billion into open-end muni funds from the start of that year and through the first two months of 2020. That amount dwarfed the annual gains of each of the past 25 years, including the group's previous boom year of 2009, which brought in roughly $75 billion. Investors' fervent demand for munis was stoked by a variety of factors, including continued economic growth in many parts of the United States, which supported solid credit fundamentals and low default rates of muni issuers.

But that voracious appetite quickly disappeared as the coronavirus-driven sell-off got under way in late February 2020 and quickly spread beyond equities to most segments of the fixed-income markets. Astonishingly, a significant portion of the assets that poured into muni-bond funds since early 2019 took a little over 14 days to evaporate and with them went a year's worth of gains. Investors pulled a record $45 billion from muni funds in March 2020 (equivalent to four months of inflows from November 2019 through February 2020), resulting in the worst-ever organic growth rate–negative 4.9%–for muni-bond open-end and exchange-traded funds. Nearly a fourth of those outflows came from the high-yield muni Morningstar Category: The March 2020 median loss for a strategy in that group was 8.8% in March.

Muni fund portfolio managers report that what first started as a loss of interest in historically low-yielding muni bonds in late February 2020 turned to indiscriminate panic selling as investors rushed into cash by mid-March. At that point, the market's brokers' oversaturated inventories resulted in a liquidity crunch and a virtually frozen muni bond market, particularly on the short end of the muni yield curve. For the first time in history, the Federal Reserve announced plans to include the purchase of short-term muni bonds as a part of the federal CARES Act in late March, which helped markets return to more balance. Yet instability persisted.

April brought some normalcy back to the muni market. Outflows from muni-bond funds waned when some investor interest peaked again as muni prices remained low. Yet investors remained cautious as concerns grew for the longer-term fiscal health of all types of municipal entities. Indeed, these have been significantly affected by the unprecedented response to combating the coronavirus. It became apparent that the burden of providing much of the equipment and services needed would fall to the states at the same time that municipal revenues were drying up because of a severe economic slowdown. As of mid-May, many market participants expect continued stress as issuers struggle with unexpected revenue disruptions and budget pressures for the foreseeable future.

While few muni market segments remain unscathed to date, it's not surprising to note that strategies in the high-yield muni category saw more significant declines compared with their higher-quality counterparts through the most recent market turmoil. The riskier, low-quality fare that drove robust returns in the strong muni markets of 2019 got stung in 2020. Funds that loaded up on some of the market's riskier names and leveraged structures followed in that rollercoaster's tracks. While the high-yield muni cohort's results shone in 2019 with a median return of 9.4% for a distinct group of strategies in the category, its median loss was 14.2% from Feb. 20 through March 23, 2020. For some of the most aggressive funds in the category, losses reached closer to 20%. From Jan. 1 through April 30, 2020, results were better, but the average strategy was still down 8.6% over that time. Funds that focused on higher-quality offerings and that generally take less interest-rate risk fared better in 2020's market volatility. For example, the median loss for a distinct group in the muni national intermediate category was 9.2% from Feb. 20 through March 23, 2020, but a milder 2.6% from Jan. 1 through April 30, 2020.

Within their respective municipal categories, the same pattern held: Muni strategies with less risk tended to fare better compared with peers going into March 2020. In particular, Vanguard's conservatively positioned and attractively priced suite of muni funds held up relatively well in the market's recent stress. Vanguard Intermediate-Term Tax-Exempt (VWITX), which has a Morningstar Analyst Rating of Gold, and Vanguard Tax-Exempt Bond (VTEAX), for example, lost 8.6% and 9.0%, respectively, from Feb. 20 through March 23, 2020, while some of their more aggressive peers' losses were in the double digits. From the beginning of 2020 through the end of April, these funds are down roughly 1.7% each. Also, in the muni national intermediate category, Fidelity Intermediate Municipal Income (FLTMX) and T. Rowe Price Summit Municipal Intermediate (PRSMX) (both rated Silver) slid less than many category peers, down roughly 8.6% and 8.4%, respectively, over the height of 2020's volatility and down roughly 2.4% each from Jan. 1 through April 30, 2020. These strategies are run by well-resourced muni shops with strong management teams and deep analysts benches that aid in their value-conscious approach. Each has provided solid downside protection in previous bouts of market stress through a bottom-up research effort coupled with strong risk analytics and a focus on higher-quality bonds when populating the portfolios.

morningstar.com

by Elizabeth Foos

May 18, 2020

How Public Agencies Can Use Green Bonds to Finance Projects.

Part 1 of a PublicCEO Series on Using Green Bonds to Advance Community Sustainability

When the Hayward Unified School District looked to advance its sustainable energy plan, it turned to green bond financing to fund the installation of solar energy systems at 33 schools in the East Bay.

The District issued its first series of bonds last spring, months after Alameda County voters approved Measure H, authorizing the school district to issue up to $381.7 million in general obligation bonds. In a series of bonds issued, the District generated $145 million in project proceeds with $20 million in municipal green bonds allocated to developing more climate-friendly facilities.

Green bonds have emerged as a new tool over the past decade for the municipal and corporate markets to directly connect environmentally conscious capital market investors with climate action projects. They've since transformed development finance and rapidly grown in issuance.

Globally, green bond issuance increased by 49 percent from 2018 to 2019 with roughly $255 billion in green bonds being issued in 2019. The U.S. alone accounted for a $76 billion, or a 30 percent, share of the global green bond market last year.

This two-part series on municipal green bonds explores how public agencies can utilize the mounting financing tool to finance public projects and further community sustainability goals.

What are Green Bonds?

There is no legal definition for a what constitutes a green bond. However, from a credit, structural and legal standpoint, municipal green bonds mirror traditional bonds but they are expressly earmarked to raise capital for — or refinance — vital public projects with positive environmental and climate benefits.

While not exhaustive, this list includes a wide range of projects that could be financed with a green bond:

- **Renewable Energy & Energy Efficiency:** Clean-energy projects utilizing the sun, wind, water and biomass (among other sources) providing an alternative to non-renewable fossil fuels as well as retrofits and updates that improve the energy efficiency of buildings and transmission systems.
- **Low Energy or Low Carbon:** Building projects designed to reduce greenhouse gas emissions by optimizing a building's structure and orientation, window location, materials used and more.
- **Water Management & Conservation:** Projects that enhance water quality, reduce flooding, improve distribution systems, provide sustainable water supplies, rehabilitate and replace aging water and sewer systems, conserve water usage, restore waterways and treat wastewater.
- **Pollution Control & Clean Transportation:** Transportation projects that expand mass public transit, including trolley, light rail, streetcar and bus rapid transit lines as well as the installation of electronic charging stations and replacing public vehicles with energy-efficient models.
- **Information Technology & Communications:** Projects improving communications with such as upgrades to dispatch systems and early wildfire detection systems, installation of advanced water meters that eliminate the need for workers to read individual meters and smart city applications that include technology tracking traffic-flow data to ease congestion on roadways.
- **Natural-Resource Preservation:** The conservation and preservation of ecosystems, open space, wildlife and wilderness (forests, wetlands, mountains, desert, coastal and other regions), including coastal-risk reduction and restoration projects, natural resource management and more.

Are There Different Types of Green Bonds?
Yes, there are generally five types of green bonds.

1. **Standard Green Use of Proceeds Bonds:** This type of bond falls in line with the general definition of a green bond as the proceeds will be used for one or more eligible projects.
2. **Green Revenue Bonds:** The cash flow associated with this type of bond's repayment must come from a green source.
3. **Green Project Bonds:** Bond proceeds are used to finance eligible green projects; however the security for the bonds is limited to the projects' assets, which may make these bonds riskier to investors.
4. **Green Securitized Bonds:** The debt obligation for these bonds is collateralized (a type of structured asset-backed security) by one or more green projects.
5. **Environmental Impact Bonds:** These bonds are issued as a public-private partnership where the bond proceeds are provided by a private entity at the onset for the construction of eligible public project. Bond payments to investors are tied directly to performance outcome.

Why Issue a Green Bond?
First, green bonds can increase investor diversification.

These bonds often attract investors who are looking to invest in a project with specific environmental impacts. With a growth in the green bonds market, there are mainstream, specialized and corporate investors who now exclusively seek out environmentally conscience investments.

"Green bonds were a great fit for Hayward USD as we want to attract socially responsible investors to our bonds and increase competition that will result in a lower borrowing cost to our community," the District's assistant superintendent of business services, Allen Garde, said after the successful bond sale.

Green bonds can also help align a public agency's goals. Across all levels of government, agencies are adopting resolutions to combat climate change and green bonds are yet another tool that agencies can use to demonstrate that they are committed to obtaining these goals.

Finally, agencies can use green bonds as a positive public relations tool. Promoting your green bonds demonstrates that an agency is actively engaging in, and delivering on, vital projects that address climate change and keep your community's health and vitality at the forefront of planning.

Looking Ahead: Designating, Issuing and Reporting on Green Bonds
Part two of this series will focus on how public agencies can designate and issue green bonds as well as the different approaches that can be taken on annual reporting for investors.

Best Best & Krieger LLP

May 22, 2020

Muni Bonds Set for Best Month Since 2009, Shaking Off Fiscal Hit.

- **Tax-free debt heads for 2.7% gain in May, erasing 2020's loss**
- **Fed intervention, rebound sends cash flooding back in**

Municipal bonds are set for their biggest monthly gain since 2009, underscoring the disconnect between the $3.9 trillion market and the economic collapse that's driving states and cities toward what may be the worst fiscal crisis in decades.

The securities have returned 2.7% so far in May, according to the Bloomberg Barclays index. The rally wiped out the record-setting loss that hammered investors in March and is driving yields back toward the lowest in more than 60 years, with those on benchmark 10-year tax-exempt debt sliding 5 basis points Friday to 0.83%.

The advance has been spurred by an influx of cash into even the riskiest municipal bond funds since the Federal Reserve moved to backstop the market to prevent another liquidity crisis.

Patrick Luby, a municipal-bond analyst with CreditSights Inc., said that investor sentiment has grown less negative as much of the country slowly reopens from the coronavirus shutdowns. At the same time, he said, states and cities are expected to take the steps needed to balance budgets battered by the drop in tax collections.

"The serious and thoughtful way in which many issuers are beginning to wrestle with what are going to be really painful decisions from a financial and human perspective is constructive to the market," Luby said.

The market has been whipsawed by unprecedented volatility over the last two months as investors sought to gauge how the shutdown will affect the finances of the thousands of governments and businesses that stand behind municipal bonds. That includes public transit agencies, airports, hospitals and colleges, among others that have been deeply affected by the closing of much of the economy.

With unemployment surging and retail businesses closed, states and cities are predicting hundreds of billions of dollars in budget shortfalls over the next few years. While House Democrats have proposed extending them some $1 trillion in aid, whether any such help will be approved by the Republican-controlled Senate is uncertain.

Even so, the bonds backed by states and cities are among the least likely to default, since governments have the ability to raise taxes and bond payments make up a relatively small share of their budgets.

No state has defaulted since the Great Depression and just a few local governments went bankrupt during the last recession. Since 1970, only about $72 billion of the municipal bonds rated by Moody's Investors Service defaulted, with about $66.5 billion of that from the bankrupted governments of Detroit, Jefferson County, Alabama, and Puerto Rico, according to a December report from investment firm VanEck.

Still, the muncipal market is dominated by individual investors, who tend to become skittish and withdraw their money when bad news piles up, a phenomenon that analysts refer to as "headline risk."

"Prices move up or down with greater velocity when you've got less liquidity," said Luby. "There's still a an enormous amount of uncertainty in the market."

Bloomberg Markets

By Fola Akinnibi

May 22, 2020, 10:42 AM PDT

Elite Colleges Join Bond-Market Boom by Seizing on Low Rates.

- **Harvard, Brown, MIT among universities that have sold bonds**
- **About $8 billion of debt issued since Fed spurred rebound**

America's elite colleges are joining the corporate-debt boom.

Even with the pandemic sowing uncertainty about the coming academic year, some of the richest universities are seizing on a chance to borrow at low interest rates. Investors have plowed into highly rated corporate debt since the Federal Reserve pledged to intervene to keep credit flowing, setting off a rally amid confidence the market will weather the steep economic contraction.

Colleges have sold about $8 billion of bonds since mid-March, a steep increase from a year earlier, according to data compiled by Bloomberg. That has included highly competitive schools such as Brown, Cornell, Duke, St. Louis's Washington and Harvard universities, all of which are seen as better able to contend with the pandemic's fallout than smaller colleges without such large endowments or cache.

About half of borrowing has been done through the sale of corporate debt, which doesn't have the municipal-bond market's restrictions on how the funds can be spent.

"Taxable corporate bonds are appealing as they are experiencing historically low interest rates and the taxable bond market has had less volatility over the last month compared with the tax-exempt market," said Matt Greaves, the assistant vice president for treasury and finance at Emory University in Atlanta.

The borrowing spree comes as the pandemic casts uncertainty over whether and how universities will resume classes in the fall. That's expected to increase the financial pressure on some private colleges that were already struggling with enrollment declines as debt-wary students seek less costly alternatives.

Yet even top-flight schools with large endowments and no trouble attracting students haven't been entirely unscathed. Harvard, the country's richest college, is forecasting a revenue shortfall of nearly $1.2 billion over two academic years. Northwestern was recently downgraded and is tapping its endowment and furloughing about 250 staff members. Cornell announced a hiring freeze and cut salaries for university leadership.

Even so, Patrick Luby, a municipal-bond strategist at CreditSights Inc., said it's an "opportune time" for universities to raise money, especially in the taxable debt market where they pose far less risk than companies whose businesses are being battered by the slump.

The Massachusetts Institute of Technology moved up to late April a $350 million debt sale for campus projects that wasn't slated to occur until as late as 2025, said Glen Shor, its vice president for finance. It paid yields of 2.29% on securities due in 2051.

"Favorable conditions for borrowing drove the Institute to accelerate its timeline," he said.

Colleges are one of the few types of borrowers that consistently swap between selling debt through the tax-exempt muni market and taxable corporate bond market. The taxable market is usually a quicker, though more expensive, avenue to sell bonds and doesn't carry the additional federal regulations that come with tax-exempt bonds.

The municipal market was roiled in March by concern about how badly the coronavirus will hammer the finances of governments and others, like hospitals or nursing homes, that have issued bonds. Though it has recovered, the gap has narrowed between the yields on top-rated municipal bonds and corporate debt, according to Bank of America Corp. analysts. That means the premium colleges have to pay to sell taxable is small.

Colleges and universities can also draw from a bigger buyer base when tapping the corporate market, said Nisha Patel, a portfolio manager at Parametric Portfolio Associates.

Corporations have sold more than a $1 trillion of debt so far this year, far more than the $136 billion of long-term municipal bonds that have been issued. Moreover, the tax-exempt debt market is dominated by individual investors who tend to yank out their cash when they see losses pile up.

"Muni investors can be a little skittish about certain sectors," Patel said. "Corporate buyers will be fine with higher rated institutions relative to the amount of risk in the corporate-bond market."

Bloomberg Markets

By Danielle Moran

May 21, 2020, 10:36 AM PDT

— With assistance by Janet Lorin

[Fitch: North American Ports Largely Shielded from Coronavirus Fallout]

Link to Fitch Ratings' Report(s): Coronavirus Stress Test: North American Ports (Essentiality and Liquidity Mitigate Throughput Declines, Rating Pressure in Stress Scenario)

Fitch Ratings-New York-21 May 2020: North American ports generally have numerous safeguards and strong financial cushion on their side in being able to weather the sizable ripple effect of the coronavirus pandemic, according to Fitch Ratings in a new report. However, ports that primarily handle cargo are expected to fare better than those with substantial cruise operations, which are expected to have sizable downside risk.

Global markets face growing recessionary economic pressures and North American ports are expected to face substantial volume stress for the balance of 2020. Seeing their exposure to demand risk and sensitivity to the economic performance of both the markets they serve and their trading partners, Fitch undertook a stress test analysis of its rated North American ports, to assess multiple scenarios, taking into account port revenue mix and potential for recovery. On the cargo side, Fitch's stress tests assume drops in cargo volumes will exceed those seen during the global financial crisis, the SARS outbreak of the early 2000's and Sept. 11. For cruise ports, the stress tests assume a more severe impact from the suspension of cruises through July, and anticipate minimal activity for the remainder of the year.

'North American ports have diversified revenue streams, amortizing debt profiles and sound liquidity positions that provide stability during periods of stress,' said Fitch Senior Director Emma Griffith. 'North American ports have also demonstrated revenue resilience through economic downturns as severe as the Global Financial Crisis, reflecting both the essentiality of global trade and the presence of strong contractual agreements at many ports.'

Also working in the sector's favor is the fact that most cargo ports have been deemed essential services, making them exempt from government-mandated stay-at-home orders and ensuring continued operations (albeit at lower than normal volumes). 'Terminal staff, longshoremen, truckers and warehouse handlers continue to service cargo ports, many with normal hours of operation,' said Griffith.

Conversely, ports with a large portion of revenues derived from cruise operations (generally greater than 30% of the revenue mix) are experiencing more acute financial stress due to the coronavirus. Fitch's stress scenarios incorporate suspension of cruise activity through July 2020 and assume minimal cruise revenue for the remainder of the calendar year, resulting in declines of up to 65%. While some cruise lines anticipate an August return to cruising at select ports, it remains to be seen if this date will be pushed back further by the lines themselves or government intervention. Some cruise activity is expected to return in 2021, but across Fitch's stress scenarios cruise ports do not see a full recovery to 2019 levels until at least 2024.

Across both cargo and cruise ports, should metrics evolve to Fitch's severe downside case levels, ports with stronger volume profiles may see one-notch downgrades, while ports with midrange volume profiles could see downgrades of up to two notches.

'Coronavirus Stress Test: North American Ports' is available at 'www.fitchratings.com'.

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Additional information is available on www.fitchratings.com

What's Next For The Muni Market?

Summary

- The municipal industry has a long history of very strong credit quality and very low default experience.
- The Municipal Liquidity Facility aims to keep the marketplace active and efficient, allowing issuers access to capital while their economies or programs begin to return to normalcy.
- All things considered, while we expect some bumpy roads in the near term, I am optimistic about the municipal bond market's recovery.

During periods of economic uncertainty, near-term decisions can determine the nature and durability of the recovery that drives long-term credit quality. I believe there is some cause for optimism for recovery in the municipal bond market. There may be many bumps in the road, but fears of many humpty-dumpty defaults really belong more in a story about Chicken Little.

My many years working with the municipal bond market entitles me, I suppose, to offer some perspective on what has occurred over the past two months, and what we might anticipate for the next few months. There isn't anyone who has not, in one way or another, asked "What do I do next?" To frame some possible answers, here are a few "markers" to consider.

Continue reading.

Seeking Alpha

May 20, 2020

Investors Are Worried About Muni Bonds. How to Profit From Others' Fear.

The municipal-bond market has lagged far behind the recovery in other sectors of the credit markets. Does that present a warning—or an opportunity—for investors?

With top-grade munis offering higher after-tax yields than corporate junk bonds, the answer would appear to be the latter.

State and local government borrowers haven't gotten the same benefit as corporations from the Federal Reserve, as my colleague Alexandra Scaggs explains. Investment-grade and high-yield corporate bonds have rallied strongly in response to the Fed's backup, while munis have provided relatively paltry returns.

Continue reading.

Barron's

By Randall W. Forsyth

Updated May 20, 2020

UPDATED: Federal Reserve Provides Pricing and Sale Updates to Municipal Liquidity Facility - Ballard Spahr

On May 11, 2020, the Federal Reserve Board (the Federal Reserve) announced further updates to its Municipal Liquidity Facility loan program (the Facility) authorized under Section 13(3) of the Federal Reserve Act to provide lending support to states, the District of Columbia, and certain large cities and counties in the United States. For our summary of the Federal Reserve Board's initial announcement of, and prior updates to, the Facility, see "The Fed Throws a Cash Flow Lifeline to State and Local Governments" and "Updates to the Federal Reserve Board's New Municipal Liquidity Facility."

How will Eligible Notes be priced?

The Federal Reserve previously announced that pricing of Eligible Notes would be priced at a premium to normal market rates, based on the credit rating of the Eligible Issuer. Now the Federal Reserve has specified that it will price Eligible Notes at a fixed interest rate based on a comparable maturity overnight index swap (OIS) rate plus the applicable spread based on the long-term rating of the security. For Eligible Notes that accrue interest at a tax-exempt rate, the pricing spread will be as follows:

Rating* Spread (bps)

AAA/Aaa – 150

AA+/Aa1 – 170

AA/Aa2 – 175

AA-/Aa3 – 190

A+/A1 – 240

A/A2 – 250

A-/A3 – 265

BBB+/Baa1 – 325

BBB/Baa2 – 340

BBB-/Baa3 – 380

Below Investment Grade – 590

Eligible Notes with taxable interest rates will be priced at a fixed interest rate that is calculated by taking the rate that would apply to such Eligible Notes if the Eligible Notes were tax-exempt, and dividing that rate by 0.65. If an Eligible Issuer has split ratings, the applicable spread will be determined by calculating an average of all of the confirmed ratings, as further described in the Federal Reserve's updated FAQs.

How will Eligible Notes be sold?

An Eligible Issuer may sell Eligible Notes through a competitive sale process in which the SPV will serve as a backstop and agree to purchase Eligible Notes that are not awarded to other bidders. Alternatively, an Eligible Issuer may sell the Eligible Notes directly to the SPV without the Eligible Issuer first undertaking a competitive sale process. The SPV will not submit a bid in a competitive sale unless an Eligible Issuer (i) is required by law to sell Eligible Notes through a competitive sale process and (ii) does not have the authority to sell Eligible Notes directly to the SPV, even following a competitive sale process in which fewer than all of the Eligible Notes are sold.

Eligible Notes will be closed through DTC and must be assigned CUSIP numbers. As only registered broker-dealers can clear an offering through DTC, the requirement to close through DTC will require Eligible Issuers to engage a broker-dealer to facilitate delivery of the Eligible Notes at closing.

What disclosure is required?

Eligible Issuers offering Eligible Notes in a competitive sale process should provide the same level of disclosure normally prepared in connection with a public offering of securities.

If the Eligible Issuer is not conducting a competitive sale process, the Federal Reserve will review the financial information and operating data provided by the Eligible Issuer on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA) and on the Eligible Issuer's website. The updated FAQs provide further detail on the disclosure required for Eligible Notes that are TRANs, TANs, or BANs. Each Eligible Issuer will also be required to provide copies of written materials containing financial information and operating data that have been provided to the rating agencies in connection with the Eligible Issuer's proposed sale.

Each Eligible Issuer must also provide the continuing disclosure information described in Rule 15c2-12 regardless of the method of sale and whether or not the sale of the Eligible Notes would otherwise be subject to Rule 15c2-12. For disclosures that are not made pursuant to Section 15c2-12 (whether because the Eligible Notes are not sold in connection with a public sale, or because the information to be provided is not required by a continuing disclosure undertaking executed pursuant to Rule 15c2-12), the Federal Reserve has not specified what remedies would apply should an Eligible Issuer fail to provide such continuing disclosure. In addition, for all transactions with the SPV, an Eligible Issuer must provide on its website, (A) a report of quarterly cash flows (actual and projected), and the funding of planned set-asides, with an explanation of any negative variances, and (B) access to quarterly financial reports and/or information in a format regularly provided to any governing body or otherwise made public. In addition, the Eligible Issuer must provide to the Federal Reserve, at both six months prior to maturity and again at three months prior to maturity, a written report explaining how it will repay the Eligible Notes at maturity.

How does an Eligible Issuer participate?

Interested issuers will be required to complete a Notice of Interest (NOI) on a form that will be made available on the Federal Reserve Bank of New York's website for the Facility. The Eligible Issuer will be notified when the NOI package has been approved and may then move forward at the appropriate time with documentation of the transaction. Prior to the mailing of a preliminary official statement in a competitive transaction and prior to pricing of any transaction, the Eligible Issuer must submit an application. Upon approval of the application, the SPV will commit to purchase Eligible Notes and pricing may proceed. The application process will likely result in delays in the posting of a preliminary official statement. In transactions where some Eligible Notes are purchased by bidders at competitive sale and the remainder are purchased by the SPV, the final official statement will presumably list the Eligible Notes purchased by the SPV as "not reoffered." The Federal Reserve is developing application forms, which will be posted on the Facility's website when available.

The Facility is not a "first come, first served" program. An Eligible Issuer should not submit an NOI until it has determined its financial needs and schedule. An Eligible Issuer may sell Eligible Notes in one or more issuances to the SPV up to, in the aggregate, the Eligible Issuer's allocated amount. Eligible Issuers should not use the Facility as a line of credit by conducting frequent, small issuances. The Federal Reserve may establish a maximum number of issuances per issuer or a minimum par amount per issuance.

How have the Facility's rating requirements changed?

The Federal Reserve has broadened the rating requirement slightly by allowing Eligible Issuers that were rated by only one major nationally recognized statistical rating agency ("NRSRO") as of April 8, 2020 to participate if (i) the rating was at least BBB-/Baa3 (for a State, City, or County) or A-/A3 (for a Multi-State Entity); (ii) the State, City, County, or Multi-State Entity is rated by at least two major NRSROs at the time the Facility makes a purchase; and (iii) such ratings are at least BB-/Ba3 (for a State, City, or County) or BBB-/Baa3 (for a Multi-State Entity).

Will the amendments improve the attractiveness of the Facility?

The FAQs state that the Facility's rate is a "penalty" rate intended to discourage use of the Facility except as a last resort while unusual and exigent economic circumstances persist. Consistent with that intent, the pricing announced by the Federal Reserve will assure that Eligible Issuers will only access the Facility if they have no other viable options. For Eligible Issuers who find themselves in that category, the information regarding sale logistics, disclosure requirements and potential impacts on timing should be carefully considered as they evaluate how best to address the economic and cash flow impacts of COVID-19.

May 13, 2020

developments in the law. It should not be construed as legal advice or legal opinion on any specific facts or circumstances. The contents are intended for general informational purposes only, and you are urged to consult your own attorney concerning your situation and specific legal questions you have.

[Fed Prices Muni Program, Spread to Range from 150 to 590 bps.]

The Federal Reserve published pricing details for its Municipal Liquidity Facility, fleshing out the terms of the $500 billion emergency lending program for state and local governments hammered by the coronavirus pandemic.

The program, which is not yet up and running, aims to buy short-term debt issued by states and eligible municipalities. Pricing will be at a fixed interest rate based on comparable maturity overnight index swap rates, plus a spread based on the long-term rating of the security for the eligible notes. Spreads range from 1.5 percentage points for AAA/Aaa-rated notes, to 5.9 percentage points for notes below investment grade.

The facility is among nine programs announced by the Fed to limit the economic harm from the virus as businesses shutter to limit contagion. Its announcement on April 9 helped municipal bonds recover from a record sell-off in March.

The pricing penalty may deter states and cities from using the facility given that borrowing costs are already low. One-year AAA municipals yield 0.48%, around where yields stood before the March sell-off, according to Bloomberg BVAL.

The Fed also amended the requirements related to ratings from nationally recognized statistical rating organizations. Issuers with only one rating as of April 8 will be eligible provided that rating was BBB-/Baa3, or A-/A3 for multi-state issuers; the issuer is rated by at least two agencies at the time the facility makes a purchase; and such ratings are BB-/Ba3, or BBB-/Baa3 for multi-state issuers.

The previous term sheet required two or more ratings as of April 8.

Bloomberg Law

by Christopher Condon

May 11, 2020, 8:32 AM

[New York Fed Releases Notice of Interest for the Municipal Liquidity Facility.]

The New York Fed today released a [Notice of Interest (NOI)] for Eligible Issuers to express interest in selling notes to the special purpose vehicle (SPV) Municipal Liquidity Facility LLC. Filling out the notice of interest is the initial step for an Eligible Issuer to provide eligibility information to the SPV for review.

An Eligible Issuer should submit an NOI only when it has determined its financial needs and schedule. Each Eligible Issuer has an allocated amount of note borrowing capacity as detailed in

Appendix A of the FAQs.

The New York Fed also announced that the SPV, Municipal Liquidity Facility LLC, designated BLX Group LLC (BLX) as its administrative agent for the execution phase of the MLF. In serving as the administrative agent, BLX will receive notices of interest and applications from Eligible Issuers interested in selling notes to the SPV. BLX will review those notices and applications based on criteria established by the New York Fed and will be available to respond to questions from Eligible Issuers. Decisions to purchase eligible notes will be in the sole discretion of the SPV.

This follows the April announcement that the New York Fed selected PFM Financial Advisors LLC (PFM) through an RFP process to provide short-term consulting services to help the New York Fed design and set up the MLF. The New York Fed also selected two law firms, Arent Fox LLP and Orrick, Herrington & Sutcliffe LLP, after a search process, to advise it with respect to design, setup and execution of the facility.

Bond Dealers of America

May 15, 2020

Fed Update: PFM No Longer Assisting Fed Municipal Liquidity Facility

We reported earlier today on the Federal Reserve Bank of New York's announcement that they are prepared to begin accepting Notices of Interest from issuers who may intend to use the Municipal Liquidity Facility, the Fed's emergency program to buy cash flow notes from municipal issuers. Also in this mornings announcement is that the Fed has chosen the BLX Group, a municipal advisory firm affiliated with the law firm Orrick Herrington & Sutcliffe LLP, to replace PFM as administrator of the program.

PFM's engagement with the Fed apparently was limited to helping launch the facility. Now that the facility is accepting Notices of Interest and is in operational mode, BLX will take over.

BLX/Orrick was hired by the Federal Reserve Bank of New York from a list of vendors the Fed had previously approved under an ongoing RFP program, according to informal conversations with Fed staff. **The Fed anticipates that BLX will serve this role until the MLF is terminated, which is scheduled for December 31, 2020.**

The BDA will continue to provide updates as they become available.

Bond Dealers of America

May 15, 2020

Update: House Stimulus Bill Includes Fed Municipal Liquidity Facility Modifications

This week, House Leadership released the HEROES Act, a stimulus measure aimed at helping stabilize state and local governments through direct funding. The bill also includes a provision that would modify the Federal Reserves Municipal Liquidity Facility.

The modifications include:

- DC would be treated as an eligible direct issuer;
- The maximum term of MLF loans would be expanded to 10 years;
- Sets rates for MLF loans at federal funds rate;
- Removes the requirement that an issuer must prove and attest to an inability to secure credit elsewhere; and
- Allow territories and political subdivisions with populations of greater than 50,000 to directly access the MLF.

State and Local Provisions

The House draft focuses on the finances of state, local, and tribal governments providing nearly $1 trillion of direct funding. This includes:

- States – $500 billion
- Local governments – $375 billion
- Territories-$ 20 billion
- Tribes – $20 billion

The bill also treats Washington, DC as a state increasing its appropriation, and expands the use of funds to cover lost, delayed, or decreased revenue stemming from the COVID public health emergency, a change from the CARES Act.

BDA will continue to provide updates as they become available.

Bond Dealers of America

May 14, 2020

Municipal Liquidity Facility Update: Facility Nears Primary Market Activity Fed Not Yet Planning for Secondary Market Activity

While the Federal Reserve continues to prepare the Municipal Liquidity Facility for primary market purchases, at this time, the facility remains non-operational.

All indications from the Fed are that the facility will soon become operational in the primary market, but following the release of key pricing details yesterday, it seems the Fed is following Congressional intent and ensuring the Facility will be used as a backstop, limiting use for most issuers. The BDA expects the Fed to ask potential borrows to issue a “notice of interest” in the coming days, a key next step to operationalize the facility.

***While they have congressional authority to do so, at this time, the Fed has shown no indication that they plan to intervene into the secondary municipal market.**

***BDA has been active with the Fed and all letters can be found here.**

The BDA will continue to provide updates as they become available

Bond Dealers of America

May 12, 2020

[Fed Takes Next Step Toward Launching Muni Lending Facility.]

The Federal Reserve took another step toward launching an emergency lending program for state and local governments, publishing an online document on Friday for would-be borrowers.

The so-called notice-of-interest document is for eligible issuers in the municipal debt market "to express interest in selling notes to the special purpose vehicle" set up as part of the program, the New York Fed said on its website. "Filling out the notice of interest is the initial step for an eligible issuer to provide eligibility information to the SPV for review."

The New York Fed also said it has retained BLX Group to help administer the program, known as the Municipal Lending Facility, which was first announced on April 9. It's one of nine emergency lending programs the U.S. central bank has been working to get up and running in recent weeks in a bid to maintain liquidity in financial markets as the coronavirus pandemic comes down hard on the economy.

Budgets of state and local governments have come under serious strain as stay-at-home orders have shuttered entire sectors and tax revenues have dried up. The Fed facility offers to purchase securities from state and local issuers with maturities of up to three years to help temporarily fund the shortfalls, though a bipartisan group of senators is calling for the Fed to buy longer-term debt as well.

Democrats and Republicans are also debating direct aid for states and municipalities as part of another round of fiscal relief.

"This NOI is designed to provide the Reserve Bank with an indication of the eligible issuers that intend to participate in the MLF," the New York Fed document posted Friday stated. "This information will be used to anticipate the staff allocation and market timing needed to fully execute the MLF. The facility isn't a 'first-come, first-served' program."

Bloomberg Economics

By Matthew Boesler

May 15, 2020

[Fed Prices Muni Program, Spread to Range from 150 to 590 bps.]

The Federal Reserve published pricing details for its Municipal Liquidity Facility, fleshing out the terms of the $500 billion emergency lending program for state and local governments hammered by the coronavirus pandemic.

The program, which is not yet up and running, aims to buy short-term debt issued by states and eligible municipalities. Pricing will be at a fixed interest rate based on comparable maturity overnight index swap rates, plus a spread based on the long-term rating of the security for the eligible notes. Spreads range from 1.5 percentage points for AAA/Aaa-rated notes, to 5.9 percentage points for notes below investment grade.

The facility is among nine programs announced by the Fed to limit the economic harm from the virus as businesses shutter to limit contagion. Its announcement on April 9 helped municipal bonds recover from a record sell-off in March.

The pricing penalty may deter states and cities from using the facility given that borrowing costs are already low. One-year AAA municipals yield 0.48%, around where yields stood before the March sell-off, according to Bloomberg BVAL.

The Fed also amended the requirements related to ratings from nationally recognized statistical rating organizations. Issuers with only one rating as of April 8 will be eligible provided that rating was BBB-/Baa3, or A-/A3 for multi-state issuers; the issuer is rated by at least two agencies at the time the facility makes a purchase; and such ratings are BB-/Ba3, or BBB-/Baa3 for multi-state issuers.

The previous term sheet required two or more ratings as of April 8.

Bloomberg Economics

By Christopher Condon

May 11, 2020, 7:30 AM PDT Updated on May 11, 2020, 8:32 AM PDT

— With assistance by Amanda Albright

Cities, States Tapping $500 Billion Fed Fund Face Penalty.

- **Fed lending program includes spread penalty as high as 590 bps**
- **Issuers expected to push back, call spreads 'too wide': Luby**

The Federal Reserve is designing its lending program for U.S. states and cities in a way that will likely deter cash-strapped governments from using it.

Even municipalities with the most pristine finances — bearing AAA ratings — would pay an extra 1.5 percentage points above an overnight indexed swap rate, according to the central bank's term sheet released Monday. That penalty may not be attractive to cities and states given that the market's interest rates are back near their lows, with one-year benchmark debt yielding under 0.5%.

The rates on the loans are viewed as a key determinant of how much cities and states would turn to the Fed to cover cash-flow shortages. So far, the Fed's roll-out of the historic program has signaled that it's treading cautiously and wants to be viewed as the lender of last resort. Cities and states must also provide written certification that they couldn't acquire "adequate" credit from a traditional bank before they tap the Fed.

"I would expect issuers, financial advisors and underwriters will push back and say, 'These spreads are way too wide,'" said Patrick Luby, a strategist at CreditSights.

Mike Nicholas, chief executive officer of the Bond Dealers of America, a lobbying group representing banks, said the above-market pricing is in line with the Fed's intention for its loans to be "last resort financing."

The dealers' group had floated a pricing penalty of benchmark index rates plus 10 basis points for AA borrowers, according to an April letter it sent to the central bank. The Fed's term sheet says it will institute a 170-basis-point penalty for governments at that grade. Those rated below investment grade will see a 590-basis-point penalty, according to the Fed.

Ben Watkins, Florida's director of bond finance, said he was surprised by the pricing levels released by the Fed, thinking originally they were going to be lower. He said the rates may deter eligible issuers from tapping the facility and support the view of the Fed as a backstop if the market isn't working properly.

"From an issuers perspective the first thing we ask ourselves is: 'What is the cheapest source of funding?" and that is what you go to every-time," Watkins said.

The central bank has also taken into account feedback from industry participants and shown willingness to alter its plans. Since announcing the facility, the Fed expanded the number of eligible borrowers to 87 cities and 140 counties, according to Census Bureau data.

Luby said the central bank may make similar changes to pricing based on feedback that it receives.

But Barclays Plc strategist Mikhail Foux said the Fed's terms may still be attractive to mid-rated borrowers that are still investment-grade that could issue notes yielding between 3% to 4% — that may end up being less costly than what they could borrow in the traditional muni market.

"I view today's developments as positive for the muni market," he said in an email.

Bloomberg Economics

By Amanda Albright and Danielle Moran

May 11, 2020, 11:15 AM PDT Updated on May 11, 2020, 1:33 PM PDT

Coronavirus (COVID-19) Resource Center - IceMiller LLP

Access the Resource Center.

New GFOA Fiscal First Aid Research Paper - Balancing the Budget Part 2

Balancing the Budget in Bad Times: Riskier Treatments for Reducing Cost and Enhancing Revenues in the Next 12–18 months

Step 5 of the GFOA 12 steps to recover from financial distress is called "Near-Term Treatments." This paper is the second in a two-part series. The first paper covered "primary" or lowest risk Near-Term Treatments and how to create the right decision-making environment and management disciplines to get the most out of all Near-Term Treatments.

The lowest risk Near-Term Treatments are the proverbial “low-hanging fruit” that government leaders often seek to close budget gaps in good times and bad. But the reality is that many governments will have to go beyond the primary techniques to address their economic and fiscal challenges. Governments facing a drop in revenues, increases in expenditures, spikes in demand for services, and loss of capacity are unlikely to overcome those problems by doing the basics well. Leaders will likely have to consider some of the riskier techniques and evaluate them carefully.

Download Report

Authors: Shayne C. Kavanagh, Gordon Mann

Year:
2020

Hey Government Officials: Cannabis Municipal Bonds Could Be A Great Source Of Revenue

Three compelling reasons why the government should consider CMBs, especially during the pandemic.

As the growth in COVID-19 cases accelerates quickly in the U.S., the pandemic will gravely impact public health across the world and cause a significant slowdown in the world economy. Businesses and households will feel the financial impacts of widespread “stay at home” orders immediately. The impact on governments will lag by several months to a year, as sales taxes and then income taxes decline.

As governments and financial institutions begin to consider creative means to aid in recovery efforts, they should take a serious look at Cannabis Municipal Bonds (CMBs).

Nationwide, growth has been tied to both the opening and maturing of cannabis markets, with U.S. legal sales estimated to reach $23B by 2022. If implemented correctly, regulated adult-use markets should experience rapid growth in the first four to six years as the illicit market is absorbed into the regulated market.

That is why we developed a report with an analysis of how CMBs could work and why they are just the idea we need to make up for lost revenue in this health crisis.

Here are three reasons:

Continue reading.

greenentrepeneur.com

by Salmeron Barnes

GUEST WRITER
Managing Director, MPG Consulting

May 11, 2020 4 min read

Senators Urge Fed to Buy Long-Term Debt From States, Localities.

- **Bipartisan group say muni market under extraordinary stress**
- **Treasury, Fed could design a program under stimulus law**

A bipartisan group of senators want the Federal Reserve to buy longer-term debt issued by state and local governments to help ease the impact of coronavirus on municipal services.

"State and local governments are on the front lines in the fight against Covid-19," the senators wrote in a letter to Fed Chair Jerome Powell and Treasury Secretary Steven Mnuchin on Thursday. "These entities are quickly deploying desperately-needed funds to hospitals, public health departments, nursing homes, water and power utilities, public transit, and other essential services."

The authors of the letter — Democrats Bob Menendez of New Jersey and Sherrod Brown of Ohio, and Republicans Thom Tillis of North Carolina and Lisa Murkowski of Alaska — note that "the municipal bond market has been under extraordinary stress" and that the Treasury and Fed must "ensure sufficient access to medium- and long-term capital for state and local governments."

"Establishing a facility to purchase municipal bonds from issuers and in the secondary market across all points of the yield curve would ensure state and local governments across the country can meet their financing needs as they respond to the health crisis and lay the foundation for future economic growth," they wrote.

Stimulus Authority

The senators note that under Section 4003 of the recently passed stimulus legislation, the CARES Act, Treasury and the Fed have the authority to design such a program. At the moment, the Fed is only lending to municipalities that issue debt maturing in three years or less. Municipal debt can be sold for as long as 30 years.

This issue is coming to the fore as the two parties fight each other and among themselves about how much aid to extend to state and local governments.

House Speaker Nancy Pelosi unveiled legislation this week that would provide roughly $1 trillion to state and local governments. Senate Majority Leader Mitch McConnell has called the legislation a "Democratic wish list" and has said that state aid can't be used by legislatures to plug deficits in pension plans for public employees.

Meanwhile, some Republicans are pushing to get help to states. Senator Mitt Romney of Utah was seen entering a recent meeting with a sign that said "Blue states aren't the only ones who are screwed."

And Menendez is working on legislation with Republican Senator Bill Cassidy of Louisiana that would establish a $500 billion fund for states. Menendez said during a recent press conference that other Republicans are considering signing on to his legislation.

Bloomberg Politics

By Daniel Flatley

May 15, 2020

— With assistance by Amanda Albright

[Private Higher Ed Munis At Higher Risk: UBS' McNamara (Radio)]

Kathleen McNamara, Senior Municipal Bond Strategist at UBS Wealth Management, discusses their new muni finance report. Hosted by Lisa Abramowicz and Paul Sweeney.

[Play Episode]

May 15, 2020 — 9:40 AM PDT

[Virus Downturn Will Further Strain Troubled Public Pension Funds.]

New research warns that the nation's worst-off retirement plans for state and local government workers "face the risk of running out of assets in the foreseeable future" if there's a slow recovery.

The nation's 20 most financially troubled state and local government pension plans could see their funding levels fall to precariously low levels if the economy has a sluggish recovery from the downturn that the coronavirus outbreak has caused, new research finds.

Most public pension systems will take a near-term financial hit due to the dramatic slump that the virus has brought on. But despite this setback, they should be able to weather the rough patch with little risk of not being able to cover benefits in the coming years, according to a [research brief] from the Center for State and Local Government Excellence and the Boston College Center for Retirement Research.

But for the worst-funded plans, the outlook the researchers present is potentially more dire. "Plans with extremely low-funded ratios in 2020 may still face the risk of running out of assets in the foreseeable future if markets are slow to recover," the brief says.

[Continue reading.]

Route Fifty

By Bill Lucia,

MAY 12, 2020

[Public Pension-Fund Losses Set Record in First Quarter.]

State and local pension funds just endured their worst quarter on record

Public pension plans lost a median 13.2% in the three months ended March 31, according to Wilshire Trust Universe Comparison Service data released Tuesday, slightly more than in the fourth quarter of 2008. March's stock market plummet led to the biggest one-quarter drop in the 40 years the firm has been tracking.

"It was a horrible quarter for all public funds," said Chicago Teachers' Pension Fund Investment Chief Angela Miller-May.

Stocks bounced back in April, making up a significant chunk of the losses. But absent a full and speedy recovery, pension losses are poised to drive up already-burdensome retirement costs for governments.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated May 12, 2020 12:01 am ET

Public Pensions Swoon in Worst Quarter Since Credit Crisis.

- **Government retirement funds lost 13% in First Quarter**
- **Pensions lost $850 billion, according to S&P Global Ratings**

State and local government pensions had their worst quarter since the credit crisis more than a decade ago as the sudden shutdown of the global economy because of the coronavirus hit almost every asset class.

The median government employee pension, whose assets are heavily weighted toward U.S. stocks, lost about 13% in the first three months of the year, according to data released Tuesday by the Wilshire Trust Universe Comparison Service. Public pensions have lost almost 8% since the beginning of the fiscal year on July 1.

The losses will put even greater strain on states facing budget shortfalls that by one estimate could total $650 billion over the next three years. Public pensions will almost surely miss their assumed annual return targets of 7%, pushing states and local governments to increase funding or cut costs by raising employee contributions or freezing cost-of-living increases. Municipalities that reduce pension payments will only see their unfunded liabilities grow.

"While deferring costs in the near term may provide budgetary flexibility and be a liquidity management tool, it will increase long-term pension costs," S&P Global Ratings said in May 6 report.

During the first quarter, the S&P 500 index plunged 20%, its biggest quarterly decline since 2008, and international stocks fell 23%. Stocks rebounded in April as governments passed massive stimulus plans and the Federal Reserve pledged to use all its tools to stave off a depression.

To dampen the impact of market gyrations, most government pensions phase in additional contributions when returns fall short of targets.

However, pension-funding ratios are based on the market value of assets and they could fall to 60% from 73% if investment performance doesn't bounce back in the second quarter, S&P said. Government-sponsored pensions would need to achieve 30% returns in the second quarter to maintain the funded ratio from a year ago, S&P said.

College endowments and foundations saw declines of 13.8%. Schools are under pressure as they face losses in their investment portfolios, as well as lost revenue from room and board refunds, canceled on-campus summer programs and potentially less tuition if classes aren't held in person in the fall.

Bloomberg Markets

By Martin Z Braun

May 12, 2020, 11:42 AM PDT Updated on May 12, 2020, 1:48 PM PDT

— With assistance by Janet Lorin

S&P COVID-19 Activity In U.S. Public Finance - May 13, 2020

Read the updated report.

S&P Credit FAQ: COVID-19, Recession, And U.S. Public Finance Ratings.

As the COVID-19 pandemic continues, public finance issuers across the U.S. are navigating the financial and economic effects of the disease. We have been and will continue to publish updates on credit conditions across sectors and will update the market with our credit opinions. In our regular communications with municipal market participants including our bi-weekly newsletters and webcasts we have received many inquiries on the current environment and our rating approach. Below, S&P Global Ratings answers frequently asked questions on the possible impact on public finance ratings as we incorporate the effects of the pandemic and recession. For more information related to our credit rating activity and commentaries related to COVID-19, please see "COVID-19 Activity In U.S. Public Finance," which we update regularly. Additional information on our analytical process can be found in " Credit FAQ: The Ratings Process And The COVID-19 Pandemic ."

Frequently Asked Questions

What does the negative sector outlook mean? How long will it stay on?

All of our sector outlooks in U.S. public finance are now negative due to COVID-19 and the rapid onset of the recession with projections of sharp GDP decline, surging unemployment, and decreased consumer spending. To start 2020, all were stable except higher education (negative for three years), ports, and mass transit. A sector outlook is a macro, forward-looking view on where we see credit trends in the year ahead. For the remainder of 2020 we would expect to see more negative than positive rating actions across U.S. public finance. We typically update our sector outlooks in January, or sooner as credit conditions warrant. A change in a sector outlook doesn't mean individual issuer or issue-level outlooks are changed.

What has been your approach to surveillance and what actions have been taken?

We are performing portfolio reviews across all municipal sectors and these efforts confirm that sectors such as health care, transportation, higher education, and subsets of the state and local government portfolios are heavily affected by the demand/revenue challenges associated with the health and safety measures in place. We expect to continuously update these views across the various sectors. To date, rating and outlook actions have represented about 4% of our rated universe. The vast majority of actions to date have been outlook revisions (97%). Rating outlooks address the potential for an event or trend to change a rating with a one-in-three likelihood over a period up to two years. This compares to CreditWatch which has a more immediate time horizon of 90 days with a 50% probability of a rating change.

Do you expect to take additional rating actions?

We expect to continue to update our credit rating opinions as economic data and forecasts become available, in line with applicable methodologies and policies. While we may look holistically at credit conditions for certain sectors to consider outlook changes that apply broadly to a group of credits, any rating change will include a full review of an entity’s individual credit characteristics.

What is the time horizon you are looking at as part of your review?

The rapid onset of the recession with swift GDP decline and sharp rise in unemployment is making this look more like a natural disaster event than a typical recession. Given the rapid deterioration of revenues and absorption of unbudgeted costs, there are near-term pressures related to liquidity that we are evaluating across sectors. We expect that revenue and expenditure alignment over the next year will be challenging and the pace of economic recovery along with response of management and policymakers will also inform our credit views.

How are you developing forward-looking views on the potential decline of revenues/taxes across U.S. public finance?

Our forward-looking view of credit conditions across public finance sectors is informed by our team of S&P Global economists and their opinion of those macroeconomic trends that directly or indirectly influence the entities we rate. Our views are also informed by available information at the state, regional, or local/entity level that provide additional detail on events or trends that contribute to our forward-looking analysis of an entity. These views are highlighted in the outlooks and upside/downside sections of our credit reports. In the current environment with varying levels of economic stress and a high degree of uncertainty, these forward-looking views may influence rating and outlook changes.

When assessing credit quality, how does S&P Global Ratings account for the post-pandemic environment? In other words, is there a through-the-cycle approach?

“Rating through the cycle” can be a misleading term that means different things to different people. What we always strive for is to be timely, transparent, and–most important in the current environment–forward-looking. How we look at the credit deterioration on a borrower depends not only on the severity of the sector stress but on where the particular borrower is on the credit spectrum.

The majority (approximately 98%) of U.S. public finance ratings are investment grade and would be expected to have a greater ability to weather adverse credit conditions than speculative grade entities. To be clear, there has been and will continue to be rating actions, but we generally expect them to be less frequent and less stark because of these borrowers’ financial flexibility. We note that this flexibility varies across our rated universe. For example, an entity rated ‘AAA’ will likely have more capacity to weather adverse credit conditions than an entity rated ‘BBB’.

Is S&P Global Ratings continuing to receive timely information from issuers during the pandemic, and how will it respond if there are delays in receiving financial or other information?

So far, information has continued to flow between issuers and S&P Global Ratings. We expect that there could be some delay in the release of financial information or other relevant disclosure. We evaluate these situations based on the information's importance to the rating analysis and whether alternative information is available or sufficient to support the ratings. We could decide to refer the matter to a committee for potential rating action, including a CreditWatch placement or a rating suspension or withdrawal.

Our receipt of information on a timely basis from issuers and obligors and their agents and advisors is essential to the maintenance of our ratings. For municipal issuers and obligors, we view proactive disclosure and dissemination of information as a positive management characteristic. Conversely, we view the lack of timely disclosure and information flow negatively.

What is the impact of short-term borrowing on credit quality?

Many public finance issuers regularly borrow or establish lines of credit for cash flow purposes. We expect that this could accelerate in the coming months due to the projected decline in revenues, extension of the filing deadline for income tax returns, and unexpected spending related to the pandemic. The credit focus would be on the size of the borrowing relative to revenues, repayment terms, and how it fits into the overall budget and financial plan. If we view a line of credit to be an interim measure, it would not be counted as debt. However, if the line is regularly used for operational purposes we would look at repayment plans and regularly evaluate this relative to the debt profile.

The pace of revenue decline may lead to fund balance/operating reserve fund reductions, pay-go capital deferrals, deficit bonds, or other one-time measures. Will this result in credit rating changes?

Most public finance entities steadily improved their financial reserves during the record economic recovery and this provides some financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner. In our view, the use of budget stabilization reserves or other non-recurring measures would not in and of itself be a credit weakness. It would be important for us to understand how a reserve draw or other non-recurring measure fits into the overall financial plan. If budget balance is achieved solely by non-recurring measures it will translate to a more significant structural budget gap in the following year if economic trends continue to be weak. The issuance of deficit bonds would be evaluated on a case-by-case basis with a focus on how it fits into the overall financial plan and what it means for the debt profile.

Would there be a rating impact if tax or revenue decline translates to a swift decline in coverage but it's temporary?

A temporary decline in revenues doesn't necessarily translate to a lower credit rating but it would be evaluated against the level of coverage and revenue recovery prospects.

How does S&P Global Ratings define default? How will various forms of technical default be treated?

Our ratings address the willingness and ability of an obligor to pay its obligations fully and on time. If the lack of ability or willingness lead to a failure to fulfill the payment obligations in full or on time, and if we believe that a payment will not come within the grace period, we would typically view that as a default and lower the rating to ‘D’, in accordance with our published ratings definitions.

We typically consider technical defaults to be those rare instances when we believe that the obligor had both the willingness and the financial ability to make a payment but could not make the payment on time due to a temporary glitch or impediment that we believe is highly likely to be resolved in the short term. In these instances, we might not lower the rating to ‘D’.

How would you view a debt service reserve fund draw?

Across U.S. public finance there are no criteria references that specify the direct implication of a draw on a debt service reserve fund on a bond or issuer rating. However, the potential credit risk associated with a draw would be analyzed in various parts of our criteria, particularly in liquidity and financial capacity analysis. It is important to note that there is a broad range of credit structures in U.S. public finance so a draw would be evaluated on a credit-by-credit basis. In nearly all circumstances it is an indication of credit pressure.

Key elements that we would consider to gauge the magnitude of the risk and its potential credit impact:

- The rating level of the specific issue;
- The reason for the draw including a review of pledged revenues and our view of the near term and longer term expectations for revenue performance, including the issuer’s plan to address potential future shortfalls; and
- The specific legal structure in place for the bonds, including reserve replenishment, flow of funds, and other relevant security provisions.

Do you expect an uptick in defaults or bankruptcy filings in public finance?

Defaults and bankruptcies remain rare in our rated U.S. public finance universe. While there could be some uptick in both reflecting fiscal stress, we would not expect this to be widespread. Our criteria specifically reference the fact that states are not eligible to file for bankruptcy protection under the U.S. Bankruptcy Code. This has been fundamental to our analysis of the institutional and government framework that is part of our review of the sector. We note there are also some limitations at the local level, which vary by state.

Has S&P Global Ratings changed any of its methodologies in determining credit risk because of the coronavirus?

We have not changed our U.S. public finance ratings criteria due to the coronavirus to date. We believe our ratings criteria continues to provide us with a framework that generates relevant forward-looking opinions of overall creditworthiness. We review our methodologies on a regular cycle. In connection with this process, we monitor and analyze current and historical performance metrics and market feedback.

14 May, 2020

This report does not constitute a rating action.

States Were Prudent; Here’s Why They Need a Bailout Anyway.

Without federal help, frugal and profligate states alike will have to tighten their belts, deepening the recession and slowing the recovery

The debate over the next federal stimulus package is taking on the trappings of a morality play, pitting Democrats who want $1 trillion in aid for cash-strapped states against Republicans, including President Trump, who say that’s a bailout for fiscal mismanagement.

This is not a good time to mix macroeconomic policy and moralizing. For one thing, the federal government is hardly one to preach fiscal rectitude to states, who have done a better job of managing their debts. For another, without federal help, prudent and profligate states alike will have to tighten their belts, deepening the recession and slowing the recovery, which is not in the federal government’s interest.

This is the second time through the wringer for state and local governments in recent years. In the 2007-09 recession their revenues plummeted, health expenses climbed, and pension funding gaps—the shortfall between state pension assets and expected payouts—widened because of falling stocks and plunging interest rates.

Continue reading.

The Wall Street Journal

By Greg Ip

Updated May 14, 2020 10:03 am ET

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 weeks. 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

U.S. Cities Seen Losing $360 Billion of Revenue From Economic Rout.

- **Pennsylvania, Kentucky, Michigan may be among hardest hit**

• **National League of Cities analysis shows ‘unprecedented times’**

U.S. cities are projected to lose about $360 billion of revenue through 2022 because of the economic damage caused by the coronavirus pandemic, an unprecedented loss that would trigger deep spending and job cuts, according to a National League of Cities analysis released Thursday.

Pennsylvania’s municipalities will be hit the hardest, with the potential loss of about 40% of their revenue this year, followed by those in Kentucky, Hawaii, Michigan and Nevada, the advocacy group calculated. The projections are based on the expected rise in unemployment and assumes that every 1 percentage point increase in joblessness will cause tax revenues to fall about 3%.

The dire outlook adds to the growing warnings from state and local government officials about the financial impact of the pandemic-related shutdowns. Without aid from the federal government, cities will be forced to enact vast budget cuts that would exert a drag on the economic recovery.

Continue reading.

Bloomberg Markets

By David Voreacos, Amanda Albright, and Danielle Moran

May 14, 2020, 9:00 AM PDT

Some Small Counties Could Take Big Economic Hits From the Coronavirus.

How much of a threat does the coronavirus pandemic pose to your community?

While the worst effects have come in major urban regions, such as metropolitan New York and Detroit, some much smaller areas could be at even greater risk, at least economically.

Barron’s recently asked HIP Investor, a sustainability ratings, data, and analytics provider, to come up with a vulnerability ranking. The San Francisco-based organization looked at all 3,142 of the nation’s counties and equivalents (such as Louisiana’s parishes). HIP gave each a score—ranging from 0% (excellent) to 100% (terrible)—that considers factors that help gauge the likelihood of the pandemic striking at the communities, now or in a subsequent wave, and the extent of the possible economic impacts. The study was done before any locked-down state had begun reopening its economy.

The 10 counties that looked safest were in the West and Midwest—Minnesota had five on the list—and, unsurprisingly, have modest populations. The safest larger counties—those with at least 500,000 residents—were in the Northeast, the Midwest, and California.

Continue reading.

Barron’s

By Leslie P. Norton

May 14, 2020 7:30 am ET

A Make-or-Break Moment for Cities.

The future of America's urban areas will depend on the help they receive—or don't—from the federal government.

Urban America faces a moment of reckoning unlike any since the late 1970s. Although the COVID-19 pandemic will cause extraordinary, long-lasting damage everywhere, cities may feel the economic pain more acutely than other parts of the country. That economic crisis could have a crushing effect on city budgets, already fragile in most places. As city budgets go, so go municipal services—from streets and sewers to schools and public safety. Philadelphia Mayor Jim Kenney is already predicting a budget gap of $650 million.

That's the high-altitude view. On the sidewalk, if you are currently holed up in a major city, or if you have friends or family in one, you've probably heard the whispers: *We've had it. Enough. When this is all over, we're leaving.*

The possible result is nothing less than the reversal of the "urban renaissance" that began roughly a generation ago. Renaissance is a freighted term, to be sure, and it elides as much as it describes, but some aspects of it are unarguable. After nearly four decades of capital flight, investment returned to neighborhoods that had been dismissed as unsalvageable. And so did people. In the 2000 census, Chicago posted its first population growth in 50 years; in 2010, Philadelphia did the same. Most spectacularly, New York City, which lost more than 800,000 residents during the 1970s, has welcomed an astonishing 1.4 million people since.

Shaping the transformation of the past few decades has been a collection of planning ideas loosely called "new urbanism." It's hard to remember that terms such as mixed-use development and adaptive reuse and transit-oriented development and infill construction were once heterodox ideas promoted by a handful of maverick planners. Now they have suffered the fate of all successful ideas and become buzzwords.

Underneath the variety of new-urbanist planning techniques lies one core principle: density. By increasing density, the thinking goes, you foster all the things that make cities work. Proximity translates into creativity; busy sidewalks are safer sidewalks; more people living close to the office or the market means fewer people driving cars, reducing the damage they do to the physical environment. And these promises have been fulfilled to a remarkable extent in cities from Washington, D.C., to Seattle. One measure of their success is that many suburban municipalities have now begun to adopt density as a central planning goal.

In this moment, however, density looks like the enemy. Cities have been hit hard by the pandemic: New York first and foremost, but Detroit, San Francisco, Seattle, and New Orleans as well. So too have nursing homes and prisons and meatpacking plants. What these places have in common is a lot of people in close proximity.

In the early months of 2020, density became a public-health risk. That inescapable fact is what cities will have to reckon with once the pandemic has subsided. How cities recover will depend a great deal on the help they receive—or don't—from the federal government.

Throughout much of the 20th century, political leaders yearned to decentralize urban areas, and they shaped four sets of overlapping policies that encouraged jobs and people to leave cities.

First, the government made the postwar suburban boom possible through an enormous expansion of federally subsidized mortgage money. Thanks to redlining practices, pioneered during the New Deal, comparatively few of those mortgages were available to residents of cities. Second, with the Federal-Aid Highway Act of 1956, it created the transportation infrastructure necessary to live in the new auto-centric suburbs. And those roads didn't just provide the means for people to leave the city for the crabgrass frontier. Highway construction bulldozed through countless neighborhoods, tearing apart the city's communities and paving them over. (By 1971, one estimate concluded, highway construction had displaced 50,000 people each year, almost all of them urban residents.)

Third, and probably less well known, the federal government facilitated the shift of jobs and people out of the Northeast and Midwest and into the South and Southwest. The funding for this didn't come in the form of mortgages so much as defense contracts. In 1952, nearly 60 percent of Pentagon contracts went to the industrial cities of the Midwest. In 1984, that figure had dropped to just more than 20 percent, by which time the terms Rust Belt and Sun Belt were firmly fixed in the national imagination. Finally, there was "urban renewal" itself, which at its worst—and it was often at its worst—fostered "we have to destroy the city in order to save it" projects. In 1958, even before some of the worst damage had been done, the journalist Walter Whyte wrote angrily, "Most of the rebuilding under way … is being designed by people who don't like cities."

Taken together, these initiatives contributed mightily to the urban crisis that so many cities found themselves in by the 1970s. They created decentralized, hollowed-out urban centers, surrounded by prosperous suburbs. Although President Gerald Ford didn't actually tell New York to "drop dead" in 1975, when the city teetered on the brink of bankruptcy, his refusal to help signaled that, as cities attempted to recover from the federally inflicted wounds of suburbanization and all the rest, they would have to go it alone.
As cities contemplate another crisis, the big question is whether the federal government will again encourage decentralization. Transportation policy is one area to watch. While roads still get the lion's share of federal dollars, since the 1990s, cities and metropolitan regions have been given greater flexibility to fund not only transit but also multimodal projects such as bike paths. Congress could easily eliminate that flexibility if it decides that cars are safer in a pandemic age. Congress could also increase a number of economic-development incentives designed to entice companies to move out of cities and into rural areas. Rural legislators, who have disproportionate power in Congress, would be only too happy to support those efforts.

The federal government could, alternatively, use this crisis to reorient its attitude toward cities and pursue policies that nurture the urban ecology by building on the things that made the renaissance possible to begin with.

The first, if not most obvious, item on such a list would be to expand immigration and refugee resettlement. American cities have rarely expanded as a result of "natural" population growth. The number of people who leave cities has usually eclipsed the number born in them. In other words, cities have always relied on newcomers to maintain their vitality. That was true a century ago, and it remains true today. As scholars have now documented, before the hipsters and kale chips and artisanal beer arrived in American cities, immigrants played a central role in the urban renaissance of the past generation. President Trump's various immigration restrictions, though driven by white-nationalist xenophobia, may well have the effect of robbing still-struggling cities—think Detroit, St. Louis, Cleveland—of the very people likely to catalyze revitalization.

Climate legislation would also help urban centers. Consider this: If New York City were a separate state, it would be the 12th largest, but 51st in per capita energy use. Should the federal government finally decide to address global warming, policies geared toward rewarding energy efficiency, for instance, would benefit urban areas directly and indirectly. Likewise, an aggressive carbon tax would almost surely encourage more urban, less carbon-intensive patterns of working and living.

Good environmental policy at the national level would prove to be good urban policy at the local level. Abandoning cities now will have disastrous consequences for the planet.

Banking and housing are two other areas where federal policy may be necessary not simply to help cities recover economically, but to shape the right kind of recovery. One can imagine that the COVID-19 pandemic will leave a cityscape of closed businesses and empty storefronts and people who can no longer afford housing. Federal intervention could help ensure that large corporations and real-estate conglomerates don't swoop in to fill every available void. In fact, the pandemic presents an opportunity to rewrite banking policies so that they reward small rather than big, and to initiate housing programs that expand opportunities for working- and middle-class people, reversing some of the trends that have made it harder for people to afford the neighborhoods they live in.

If that all seems utopian in this political moment, then remember that we've been here before. There were whispers after 9/11 too. I heard them in Philadelphia and Boston as well as in New York: Cities are too crowded—it makes them easy targets for terrorists. Terrorism did not, in the end, cause an urban exodus, though it did change the way we live in cities.

In the end, I don't think the pandemic will take us back to the urban conditions of the 1970s. A consistent trend across 200 years of American history has been the increasing urbanization of the population, and cities have proved resilient in the past—whether Philadelphia after the influenza pandemic of 1918 or Cincinnati after the cholera epidemic of 1849. But I do expect that COVID-19 will change our cities once it burns itself out. The former Senator William Cohen liked to quip that the federal government is always the enemy until you need a friend. As we all recover from the pandemic, cities will need that friend so that we can continue to live with the "variety and concentration" that William Whyte loved so well.

The Atlantic

By Steven Conn

MAY 15, 2020

Municipal Support for Local Economies in a Public Health Crisis May Include Regulatory Flexibility.

As businesses scramble to survive in the spring of 2020, trends have emerged locally and across the country. Despite widespread economic pain, many bedrock business categories have responded with new and creative ways to meet consumer and community needs and keep businesses open. Examples include:

- grocery stores that must enforce limits on customer density to allow for social distancing are also working to meet amped up delivery and curb-side pick-up requests;
- restaurants limited to take-out or delivery of prepared meals are looking to sell groceries to consumers and planning to add outdoor seating in the upcoming summer months;
- breweries and other manufacturers are shifting some operations to produce new products such as hand sanitizers, PPE, or products for hospitals; and
- closed retail shops and big box stores are planning for eventual re-openings with enhanced Buy On-Line, Pick-Up in Store ("BOPIS"), or curb-side or near curb-side programs for contactless shopping.

While some of these use changes may occur without change to existing municipal approvals and licenses, others may require additional licenses, use approvals, site plan changes for parking lot and drive aisle redesign, approval for use of sidewalks for operations, and health department or other reviews or approvals.

Examples of business transformations already in place range from the smallest mom and pop store to the largest national chain. The fast food giant Denny's now operates its "Denny's Market" in many areas of the country with "on the spot" drive-thru shopping and free delivery for grocery staples like bread, meats cheese, eggs, and toilet paper. Walgreens is rolling out expanded drive-up options for essential household and wellness items, ordered and paid for online in advance and picked up at participating pharmacy drive-thrus. Michaels arts and crafts stores are combining contactless curbside pickups with returns via UPS Access Point locations. CVS is piloting drone delivery to a large retirement community in Florida.

Locally, with its Beer Hall closed for on-premises consumption, Jack's Abbey in Framingham added take out service, partnering with GrubHub to offer local food delivery, and expanded its retail beer sales operations as a to-go business. Framingham's DeltraPlus switched from manufacturing non-toxic fabric protectors to producing hospital-grade disinfectant. Chelsea based restaurant supply company J.W. Lopes developed a highly subscribed home delivery service to new home-based customers in Eastern Massachusetts called New England Country Mart, providing "curated" weekly produce and provision boxes, with add-ons based on availability and arrangements with local vendors.

Business pivots may require changes in technology, physical space, or licensing. Smaller businesses are challenged to compete with national services that offer premium delivery services, and large box stores with ample adjacent pickup areas as online and curbside demands surge. Businesses need digital channels for sales and payments, and training of staff on contactless processes.

Some new services have quickly formed to help serve transformed uses, such as Paerpay, developed by Worcester entrepreneur Derek Canton, who worked with the Massachusetts Restaurant Association to introduce a smartphone app for contactless payment platform for restaurants. New activities and ways of doing business may lead to new obligations to obtain approvals and regulatory compliance, and businesses are wise to review carefully and understand up front required licenses, permits, or waivers.

Examples of essential emerging business operations which need clarification from municipalities follow, with notes on how some communities in Massachusetts and elsewhere have begun to address these issues:

Restricted uses, and "change in use restrictions" due to zoning or prior permitting

Zoning bylaws and ordinances, or conditions to permits, may control whether a business may adopt the new use, serve customers, and survive during the COVID-19 crisis. Municipalities should examine what may be done temporarily to allow certain uses without causing businesses to go through drawn out public hearing processes, delays, and expenses, and ask whether there are some uses that merit temporary approval, within some parameters, whether or not conflicting with existing permitting and codes, such as:

- Curbside delivery zones
- Drive up or drive thru aisles
- Changes in use category

Mixed commercial use in certain categories (for example, restaurant and retail, retail and industrial) Zoning typically prohibits uses such as industrial or warehouse within areas zoned for retail, and may limit or have additional regulations for a mix of use classifications. Many localities require special approvals or different licenses for "change in use", even from one "as of right use" to another. For some examples, an increase in big box retail conversions into uses closer to distribution centers could stretch the retail use classification, or a restaurant operating as a grocery store or commercial kitchen might no longer be deemed "restaurant".

In some areas of the country, local governments have enacted emergency zoning changes, such as Little Rock, Arkansas which temporarily changed its zoning ordinances to allow restaurants to serve as grocery stores and food markets. Alexandria, Virginia has suspended enforcement of special use permit conditions that limit hours of operation, deliveries, off-premises alcohol sales, and outdoor sales or dining. The city has also begun to work on temporary and permanent changes to its municipal code related to these activities.

Local governments may consider whether applying a strict requirement to temporary changes needed in response to the current reality, which may result in a public hearing process, and additional delays and expenses to businesses, as indicated, or whether certain changes may be handled in a more expeditious way where appropriate.

One specific example, drive-thru lanes, have long been unpopular in municipal planning and the public. Even where not expressly prohibited, modifications to approved site plans require extensive time and public hearings in many cities and towns. A curb-side pick-up aisle, whether deemed a "drive-thru" or not, may conflict with previously approved site plans, or dedicated fire lanes. In response, the Town of Swampscott is allowing all restaurants to offer curbside pick-up and delivery on a temporary basis. The City of Raleigh, North Carolina has created Temporary Curbside Pickup Zones, which zones are demarked in about 100 locations in the City for takeout services and other small deliveries. In the current climate, Municipalities should consider whether relaxing these restrictions is appropriate to meet residents' needs and help ensure the businesses survive.

Municipalities may want to examine whether temporary changes could be implemented on an emergency basis by executive order of a mayor, action of the select board, city council order, or by building or health department policy, so that changes can be effected quickly and inexpensively to provide relief to struggling businesses, while also providing the public the peace of mind that the changes are temporary. It should be noted that most town meetings in Massachusetts have been postponed indefinitely. Where zoning bylaws for towns must be approved by town meeting, the Commonwealth may also want to consider whether legislation or an Executive Order by the Governor may assist towns in enacting temporary measures by action of the select board or town manager in lieu of a Town Meeting vote.

Outdoor uses

Zoning may prohibit commercial uses, equipment, and signage on sidewalks or external to a business. Based on its understanding that the outside of structures may afford better social distancing, Alexandria, Virginia is allowing restaurants and retail establishments to conduct business on adjacent sidewalks and parking lots on a temporary basis. Localities should consider implementing streamlined temporary processes to allow for outside seating and parking plan changes to accommodate current realities, such as:

- Sidewalk use for commercial sales
- Outdoor seating for restaurant
- Parking area change to allow ancillary use, and use of unused parking area for operations

- Portable signs (especially for outdoor uses) if otherwise prohibited by the local sign by-law

On a temporary basis, municipalities may consider not just allowing these outside uses, but also whether temporary site plan changes for any of the above items may be accomplished without requiring a public hearing, with or without some level of administrative approval.

Licensing

Existing licensing of a business may not fit a new use. Early on, Boston inspectors blocked grocery sales by some restaurants. Following an initial outcry and assistance by the Massachusetts Restaurant Association, Mayor Marty Walsh recognized the unprecedented time in the community and recently announced Boston's new temporary policy waiving the required Retail Food Permit for the sale of uncooked foods by restaurants. Boston restaurants may now sell grocery items subject to an administratively approved operational plan. Somerville and Arlington also allow restaurants to sell groceries, within certain protocols and parameters. In addition to these sort of policies, cities and towns may also consider:

- Waiving of fees and providing expedited approvals for remodeling or amendments to existing health department licensing to allow additional grocery sales use
- Waiving of fees and providing expedited approvals for any category change for existing licenses such as restaurant, catering, retail/convenience, and take out

Other supports

Cities and towns in conversation with local businesses and municipal professional staff may consider a variety of other creative ideas to buffer against the economic down turn due to the health crisis. Ideas include creation of delivery/pick-up zones for businesses that do not have their own space to accommodate such areas, waiving of parking fees, changing limits on hours of operation if existing permitting is too restrictive, and opposing gouging by delivery services that hurt restaurants and staff.

As economic pressure mounts, municipalities should consider allowing businesses in their community the needed flexibility to address abrupt changes to traditional operations and needs as a result of social distancing requirements. Such efforts will help businesses have a fair shot to survive, maintain jobs, preserve the economic and tax base to the extent possible, and to help residents access the goods and services they need in a safe manner.

Bowditch & Dewey LLP – Katherine Garrahan

May 12 2020

Senate Committee Clears the Path for Additional WIFIA Funding.

Last week, the Senate Committee on Environment and Public Works passed America's Water Infrastructure Act of 2020 (AWIA) and Drinking Water Infrastructure Act of 2020 by a vote of 21 to 0. AWIA would authorize approximately $17 billion in new federal spending to invest in water infrastructure over the course of the next three years.

Two sections included in the AWIA confirmed the federal government's continued support for the Water Infrastructure Finance and Innovation Act (WIFIA). If approved by the full Senate and the

President, AWIA Title II Section 2014 reauthorizes WIFIA …

Continue reading.

By Youju Min, Elizabeth Cousins on 05.11.2020

Nossaman Infra Insight Blog

Luxury Dorm Financed With Muni Bonds Falls Into Bankruptcy.

- **Trustee plans to make June debt payment from reserves**
- **Housing project included swimming pool, scooter parking spots**

The operator of a student housing complex built for University of Florida students fell into bankruptcy, the latest municipal-bond financed project in fiscal crisis amid the coronavirus fallout.

Midtown Campus Properties LLC sold $78 million in unrated taxable municipal bonds in 2019 for the 310-unit facility in Gainesville, Florida. The mixed-use complex, whose website promises an "elite" experience for students, was set to include parking spaces for scooters, a resort-style swimming pool, fitness center and arcade with one-bedroom apartments renting for $1,380 per month, bond documents show. Instead, the operator filed for Chapter 11 last week, less than 16 months after selling bonds.

It's the latest muni-bond financed project that's fallen into distress after being sold at the height of buyers' interest in risky investments that offered higher yields. BlackRock Inc. said in a report last week that student dorms are among the areas in the $3.9 trillion state and local government debt market that are vulnerable to the economic impacts of the coronavirus.

The economic shutdown to stem the spread of the pandemic has pressured states, cities, hospitals and others that routinely borrow in the municipal-bond market. State and local bonds have lost 0.6% this year, headed for their first loss since 2013, according to the Bloomberg Barclays index. But the high-yield muni market, where the riskiest projects raise funds, has been particularly hard hit. High-yield munis have lost 9% this year, on track for their biggest drop since 2008.

Midtown Campus Properties LLC filed for Chapter 11 bankruptcy on May 8 in the U.S. Bankruptcy Court for the Southern District of Florida, listing liabilities between $50 million and $100 million. In a regulatory filing on May 11, trustee U.S. Bank said part of an upcoming June debt payment on the muni bonds would be made from reserves.

Oscar Roger, chief executive officer of the Roger Development Group, the Florida real estate company managing the project, said construction will continue on the student housing complex, which is 30% leased and 90% completed.

"This decision to file bankruptcy was reached after carefully evaluating various options and was caused by several factors, including general contractor delays and labor shortages, and most recently, business and University of Florida campus closures from COVID-19," he said in an emailed statement.

Other student housing projects financed in the muni market are facing financial woes after universities sent students home and refunded their room and board costs. The University of Florida dorm project, which was still getting off the ground, reported construction delays from the pandemic, as well as weather and labor issues, according to regulatory filings.

The unrated bonds were sold to qualified institutional buyers only and priced to yield 7% in 2038.

Bloomberg Markets

By Amanda Albright and Danielle Moran

May 12, 2020, 10:45 AM PDT Updated on May 12, 2020, 11:26 AM PDT

Municipal Bonds Can't Easily Dismiss Doomsayers This Time.

When going out in public has changed radically, public finance might have to as well.

For decades, the $3.9 trillion municipal-bond market has been seemingly immune to hyperbole about its demise.

There was banking analyst Meredith Whitney, who in December 2010 warned of "hundreds of billions of dollars" of defaults in the coming year. Berkshire Hathaway Inc. Chief Executive Officer Warren Buffett said in 2014 that public pension plans were a "gigantic financial tapeworm" for state and local governments. Each high-profile bankruptcy was supposed to be the "big one": Alabama's Jefferson County in 2011, then Detroit in 2013, then Puerto Rico almost three years ago to the day. And yet, each time, the critical U.S. market that funds roads, bridges and schools chugged along unabated. It was, in its own quirky way, almost too idiosyncratic to collapse.

The coronavirus pandemic will test that resilience like never before. It's growing more likely by the day that public finance might never be quite the same — precisely because being out in public has radically shifted across America, all at the same time. "It's an interesting philosophical point: If there are all of these idiosyncratic risks, but they're all very similar, when does it become more of a systemic risk?" Matt Daly, head of the corporate and muni teams at Conning, said last week in an interview.

Having started my career at Bloomberg covering munis, I'd be one of the last people to recklessly speculate about the market's impending demise. I fully expect it to survive — but not without taking more punishing blows than ever before.

One of the advantages of writing about tax-exempt bonds for years is you get to know precisely what kind of borrowers access this market for capital. Yes, there are state and local governments, which are clearly strained because of the Covid-19 outbreak, as illustrated by last week's jobs report, which showed they cut payrolls by almost 1 million in April. But in the end they're still quasi-sovereign entities with taxing power. They may have to raid rainy-day funds, which were at record highs, but they'll be standing once the Great Lockdown is over.

There's far more to the muni market than just them, however. To name some other issuers: Mass transit systems, airports, toll roads, universities and colleges, hospitals and health-care institutions, nursing homes, museums, convention centers and sports stadiums. These are not one-off projects. Together, they account for hundreds of billions of dollars of debt. These borrowers won't all default suddenly, but they could be scarred in lasting and not-yet-fully-understood ways.

“It doesn’t take a lot of imagination to appreciate how the impact of what we’re doing here is going to affect all those sectors differently — the muni market has potentially more credit uncertainty to it now than the corporate market,” Guy Benstead, a portfolio manager at Shelton Capital Management, told me last month.

“The component that’s really different from last time around is there’s a lack of clarity around how the economic impacts of the stay-at-home, social-distancing policies are going to impact your standard, run-of-the-mill municipal-bond issuer,” he said. “If you run a mass transit system, and zero people ride the system, what happens?”

New York’s Metropolitan Transportation Authority found out the answer firsthand last week. Downgraded by the three biggest credit-rating companies this year, it managed to increase the size of its bond offering to $1.1 billion but had to offer yield spreads that were four times as large as its previous deal in January. That’s only natural considering the agency faces a potential $8.5 billion deficit this year, and it’s very much an open question of when — or if — subway ridership returns to pre-pandemic levels.

New Yorkers might have previously taken a train to the Museum of Modern Art, which is less than a year removed from the opening of a $450 million expansion and renovation. Guess what helped finance that project? Some $281 million of muni bonds issued in 2016. Now, MoMA has taken a “chain saw” to its staff, budget and exhibitions. It was on track to have about 3 million visitors this year but now expects less than 1.5 million.

MoMA’s debt is holding up fine. Credit-rating agencies haven’t been in any rush to downgrade bonds tied to museums, with S&P Global Ratings recently affirming its grade on debt issued for the Morgan Library & Museum, just a mile south of MoMA. “While we recognize that these are unprecedented times, we acknowledge that management has taken prudent measures to address the situation and is planning proactively for what the coming months may bring,” S&P analysts wrote. Museums beyond these Manhattan mainstays might not have such wherewithal, however. S&P downgraded the Philadelphia Museum of Art last week, citing “material operating pressure.”

Convention centers and sports stadiums are in the same predicament as museums. What happens if large gatherings are put off until 2021, or even 2022 or 2023? How do stadium bonds fare if there are no fans paying for tickets, parking or concessions? Some of these securities are backed by a government’s “moral obligation” to make up revenue shortfalls, but that structure has proved to be less than ironclad when money gets tight.

In one example, Moody’s Investors Service says the Las Vegas Convention and Visitors Authority should have solid debt-service coverage well into the fiscal year that starts July 1. A more severe-than-expected scenario, analysts note, “could put stress on the credit to the extent that its liquidity is drained.” Also working in its favor: “Long-term contracts with many of the largest conferences and conventions will likely ensure that business will resume at some point.”

That’s fine, but what about $45 million of bonds issued to fund a new ballroom at Sacramento’s convention center, where construction is delayed? There, debt-service coverage is “very likely to drop below 1.0 times in the near term,” Moody’s said in a report revising its credit outlook to negative. The Lombard Conference Center & Hotel in Illinois has already tapped reserves to pay its debt. Las Vegas may have some margin for error; other places don’t.

The pandemic shocked airport bonds, too. As Bloomberg News’s Danielle Moran reported, the 11% loss on those securities in just two weeks probably went too far, given that the largest airports aren’t going to close suddenly. But like public transit agencies, it’s suddenly unclear whether demand will rebound to pre-coronavirus levels.

Then there’s higher education. Some bonds are backed solely by student housing fees. While Bloomberg Intelligence’s Eric Kazatsky said “making a broad statement that the whole sector is in peril would be unfair,” he noted that two-thirds of the projects are backed by an entity unrelated to the associated university. If students don’t show up in the fall, it will be fair to say those securities are very much at risk. As for small colleges themselves, I wrote last month that they won’t all outlast the coronavirus.

If your imagination isn’t exhausted yet, consider hospitals, health-care systems and nursing homes. The Mayo Clinic announced last month that 30,000 of its employees would face reduced hours or furloughs “as part of our financial stabilization efforts related to the Covid-19 pandemic.” Some of its debt recently traded at the lowest level in more than six years. The Becker’s Hospital Review is keeping a running tally of nationwide furloughs due to sharp declines in revenue; it’s up to 243 hospitals as of May 7.

“Part of the point of sheltering in place is to take the strain off of the health-care system, and we’ve decimated them,” Patrick Leary, chief market strategist at Incapital, said in an interview. “That’s a really big unintended consequence.”

Senior-living facilities, a $30 billion slice of the muni market, are the most tragic case of all. Here’s one example from Bloomberg News’s Martin Z. Braun: The Henry Ford Village, a 1,038-bed continuing care retirement community in Dearborn, Michigan, will need to draw on reserves to make its May 15 debt payment. What’s worse, 25 of its 900 residents had tested positive for the virus through April 21 and nine had died. Fifteen employees also tested positive. A Washington Post analysis found that nursing home residents may ultimately account for half of all U.S. coronavirus deaths.

From the onset of this crisis, senior homes were clearly in trouble. I wrote on March 16 that a handful of the facilities played a role in crushing the largest muni high-yield exchange-traded fund. My Bloomberg Opinion colleague Stephen Mihm recently suggested the coronavirus might put an end to the idea of assisted-living facilities. At the very least, it should slow the movement toward age segregation, which means the elder-care business is in for a reckoning.

Many opinions about how the world will change because of the pandemic will inevitably be wrong. It’s possible, perhaps even likely, that some segments of the muni market will bounce back faster than expected. The biggest wild card is any sort of relief package from the federal government, which would go a long way toward staving off a worst-case scenario.

But it won’t all go back to the way it was before. This sort of shock, bringing activity to a halt from coast to coast and reshaping the way Americans interact with their local communities, is something that denizens of the muni market won’t soon forget. It might not be as flashy as Whitney’s call for widespread defaults, but maybe munis’ relative yields will have to be permanently higher than in previous decades. Idiosyncratic or not, the market’s risks are real.

Bloomberg Opinion

By Brian Chappatta

May 11, 2020, 3:00 AM PDT

UBS Sees Muni-Bond Market Facing Biggest Storm in Modern History.

- **States still seen as a haven, despite vast budget gaps**
- **But once-booming high-yield niche may see 'surge of defaults'**

To the analysts at UBS Global Wealth Management, the $3.9 trillion municipal-bond market is heading into the biggest financial storm anyone has ever seen.

The nation's swift economic collapse is hitting virtually every corner of the market, which extends far beyond states and cities with the power to raise taxes.

Nursing homes that have sold tax-exempt debt are being ravaged by the outbreak. College dormitory operators are facing vacancies, while small private schools that were already competing for students face uncertain prospects. Airlines whose lease payments back some bonds are seeing losses pile up. Stadiums and museums are empty.

Worries about the impact of the pandemic triggered a record-setting sell-off in March, and investors have continued to pull cash out of mutual funds. UBS strategists led by Thomas McLoughlin said in a report released Thursday that the firm has gotten an "unprecedented" amount of inquiries about credit conditions in recent weeks.

"COVID-19 now poses the most severe challenge to municipal credit in living memory," according to the report by strategists led by McLoughlin.

The state and local debt market, which is used by over 50,000 issuers, has a well-deserved reputation as one of the world's safest havens. Bankruptcies by local governments remained extremely rare even after the last downturn and no state has defaulted since Arkansas did after the Great Depression.

The UBS analysts said that states will remain safe bets even as they contend with massive budget shortfalls.

But the municipal junk-bond market had boomed in recent years as rock-bottom interest rates led investors to plow money into the riskiest securities to capture bigger returns.

That sector has since been roiled by the pandemic. High-yield state and local debt has dropped about 9% this year, on track for their worst yearly loss since 2008, according to Bloomberg Barclays indexes.

High-yield munis have yet to rebound as much as safer assets
UBS had warned clients about the risks of investing in high-yield before the sell-off began in March and said that such debt issued for student housing projects, shopping malls and recycling factories may not recover anytime soon.

"The unprecedented monetary and fiscal support for the economy will allow most municipal bond issuers to recover, but the high yield sector is particularly exposed," UBS said in the report.

UBS said higher education and health-care bonds pose particularly high risks. For private colleges, the economic crisis may exacerbate long-standing concerns around enrollment declines and affordability, causing default risk to rise "appreciably," the firm said.

"We expect the severity of the current recession to result in a surge of defaults among high-yield bonds," they wrote. "There are simply too many bonds secured by nursing homes, continuing care retirement communities, and economic development projects to reach a more benign conclusion."

Bloomberg Markets

By Amanda Albright and Danielle Moran

May 14, 2020, 6:30 AM PDT

— With assistance by Martin Z Braun

New York MTA Bonds Rally on Wager Subway Agency Too Big to Fail.

- **Yields on 35-year debt down 52 basis points from last week**
- **Latest House relief bill gives $16 billion to transit agencies**

The $1.1 billion of debt sold last week by New York's Metropolitan Transportation Authority rallied as some investors view the largest U.S. mass-transit system as a key part of the city's economic recovery from the coronavirus pandemic.

A $1.5 million-size trade of MTA bonds maturing in 2055 changed hands Wednesday at a yield of 4.71%, a drop of 52 basis points from the 5.23% yield when the debt first sold on May 5, according to data compiled by Bloomberg.

The MTA sold the debt to help repay $1 billion of notes maturing May 15. The sale came as ridership and revenue drop dramatically and the agency faces a potential $8.5 billion deficit this year as riders stay home and avoid subways, buses and commuter-rail lines.

Investors are looking past the headlines and focusing on MTA's vital role in getting residents around the New York City region, said Dora Lee, director of research at Belle Haven Investments, which holds the agency's debt. Congress allocated $3.8 billion to the MTA in the CARES Act to cover revenue losses because of the virus.

"There are inherent strengths to the MTA such as its essentiality to the economy and recovery," Lee said. "The federal aid in the first CARES Act certainly affirmed its essentially in just providing transportation to front line workers."

The May 5 sale offered investors two other maturities. Trades of at least $1 million for debt maturing in 2045 changed hands Wednesday at an average yield of 4.65%, 30 basis points less than the initial 4.95% yield, Bloomberg data show.

Trades of at least $1 million for bonds due in 2050 changed hands Wednesday at an average yield of 4.16%, 92 basis points less than the initial 5.08% yield, Bloomberg data show.

The MTA nearly doubled the deal size to $1.1 billion and offered yields high enough to attract sufficient investors. It showed that the $3.9 trillion municipal-bond market is a deep source of liquidity for the MTA, said Matt Fabian, a partner at Municipal Market Analytics.

"The sale also gave confidence to investors who have seen the MTA as too big to fail," Fabian said. "Confidence in knowing that a lot of other investors clearly agree with them."

Still, the MTA’s borrowing costs have increased. The yield spread on 25-year debt sold last week was more than four times when the agency issued bonds in January.

The MTA and other transit agencies throughout the U.S. have asked Congress for an additional $32 billion to help cover lost revenue. That ask is double the nearly $16 billion that House Democrats included in the latest virus relief bill.

Bloomberg Markets

By Michelle Kaske

May 13, 2020, 11:42 AM PDT

Green Bond Issuance Dips in Q1, but Long-Term Picture Remains Bright.

The coronavirus pandemic hindered issuance of green bonds in the first quarter, but market observers still see a bright long-term outlook for the asset class, which bodes well for ETFs such as the VanEck Vectors Green Bond ETF (NYSEArca: GRNB).

GRNB tracks the S&P Green Bond Select Index, which is “comprised of labeled green bonds that are issued to finance environmentally friendly projects, and includes bonds issued by the supranational, government, and corporate issuers globally in multiple currencies,” according to VanEck.

“Global sustainable bond issuance totaled $59.3 billion in the first quarter of 2020, 32% lower than the fourth quarter of 2019, as the economic and financial fallout from the coronavirus crisis began to spread,” said Moody’s Investors Service in a note. “A precipitous drop in green bond issuance was the main driver of the steep decline in sustainable bond volumes. Record quarterly social bond issuance and steady sustainability bond issuance somewhat mitigated the decline.”

Green bonds are debt securities issued to finance projects that promote climate change mitigation or an adaptation or other environmental sustainability purposes. The new breed of green bonds gained momentum in the global market ever since the European Investment Bank issued the first green bond in 2007.

International Outlook

Companies outside the U.S. are major issues of green debt as are sovereign issuers, which diversifies GRNB’s geographic exposure.

“Emerging markets sustainable bond issuance totaled $7.7 billion in the first quarter, its lowest level since Q1 2018,” notes Moody’s. “Despite economic challenges associated with the coronavirus in the coming months, we continue to see strong potential for sustainable bond growth throughout EM economies over the long run given their susceptibility to ESG risks and huge investment needs to finance sustainable development.”

Low oil prices may appear to deter green investing, but in reality, the opposite may prove true. Plus, GRNB’s portfolios are highly rated with the bulk of its holdings residing deep into investment-grade territory while many traditional energy issues carry junk ratings.

“Green bond volumes declined to $33.9 billion, a steep 37% decline compared with the first quarter of 2019 and an even greater 49% decline compared with last year's fourth quarter. More positively, social bond issuance totaled $11.9 billion, a new quarterly record, while sustainability bonds registered a strong $13.4 billion total," according to Moody's.

ETF TRENDS

by TOM LYDON on MAY 13, 2020

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7 Things You Must Do If Your Municipal Bond Defaults.

For all the dramatic headlines of financial disaster facing municipal bond issuers due to the coronavirus, when a bondholder gets a notice of default, it is general a pretty dull affair. The wording, usually a series of paragraph-long sentences dense in legalese, states something along the lines of "Notice of Nonpayment of Principal" or similar such language. The actual word "default" may not even appear anywhere in the document.

But in fact, that is what it is. When you, the investor, purchased the bond, you were extending a loan. The borrower covenanted to repay you with interest and return your principal at maturity. Now they are not. That is a default.

Advice For Investors

With hands on experience across several municipal sectors and project financings on all facets of defaults, workouts and restructurings—from testifying in U.S. Bankruptcy Court to serving on Creditor's Committees—let me offer some general advice.

Individual Investors: Find a financial advisor that is expert in municipal bonds. Thinking you can manage your way through a municipal bond default on your own is akin to thinking you can be your own lawyer. Either way, you have a fool for a client.

Financial Advisors: For financial advisors who have never had the pleasure of working through a municipal bond default, be prepared for the inevitable client questions. And those questions are going to come when statements go out showing that month's interest checks are a little light.

Institutional Investors: As an institutional investor in an analyst or portfolio manager role, if this is your first time at the municipal bond default rodeo, rope in a colleague who has been through one or many of these. Having a knowledgeable guide will save a lot of time and possibly your career. If you have been through one, grab a colleague who hasn't so they can learn the ropes. More of these are coming, they are very time consuming, and you'll need all the help you can get.

Now What? Next Steps

1. Be Proactive and Practical

Regardless of who and where you are in the capital stack, the most important thing is to be proactive and practical, notes Rick Frimmer, counsel at the law firm of Schiff Hardin. An acknowledged expert in this complex field, he has represented and advised to numerous clients, both lenders and borrowers, going through financial distress of nearly all degrees. "Get out ahead of it and don't wait until the last minute to act," he states. That goes for borrowers as well as bond holders.

2. See Which Way You Lien

Go to EMMA and download the final Official Statement. (Hosted by the Municipal Securities Rulemaking Boards, EMMA, short for Electronic Municipal Market Access, is the central repository for information on nearly every municipal bond issued.) Start carefully reading all those sections you might have only skimmed initially about bondholder approval, additional debt, covenants, debt service reserve fund, and in particular, the security provisions.

Suddenly all that “boiler plate”’ wording is going to get a lot more interesting. Perhaps it is only a covenant violation. The issuer could not cover debt service by the amount set in the bond agreement. This may require a simple waiver or forbearance agreement.

But on true cash defaults, when debt service wasn’t paid, that gets serious fast. You want to find out what your security is to protect your investment and enforce your rights. You’ll quickly learn there is a big legal difference between a first mortgage lien and a pledge to pay debt service. A first mortgage lien gets you a seat at the adult table. An unsecured lien gets you a seat at the kids table. Maybe. Pledge? Pledge is brand of furniture polish, not a lien.

3. Be Nice to the Bond Trustee

Prior to a default, most investors don’t even know who the trustee is much less what they do. Ginny Housum, a senior vice president and bond trustee at UMB Bank, understands. The usual role of the trustee is to receive and distribute funds in the payment of debt service.

But post-default, the world changes immediately. The bond trustee becomes a fiduciary of the bond trust, charged with acting under the “prudent person” rule. In this role, responsibilities now might involve identifying bondholders, keeping the marketplace informed by posting notices on EMMA and Bloomberg, soliciting direction from investors on selection of counsel and financial advisor, and act on direction of the investors, among other things as might arise.

The role can become complex. Housum notes solutions are not so simple. For example, when there are solely retail bondholders, identifying them and getting majority approvals can be challenging. When bondholders disagree on direction can also present issues. Often disagreement can arise when money must be dispersed from the trust to preserve bondholder assets but not be paid to the bondholders, such as for taxes.

4. A Declaration of Independence

Quickly assembling a good, independent legal and advisory team can expedite a solution preserving cash and assets as well as getting the business back on sound footing. Frimmer adds another important aspect. An independent team brings an unbiased viewpoint on finances, operations and legal matters. He takes care to point out, “like mediation—all parties get a fresh perspective on the possible outcomes.”

Another benefit, often unspoken but equally important, is that an independent third party can offer cover to deliver bad news. Stakeholders might otherwise be unable or unwilling to broach a less than optimal result to their respective chains of command. The same news, coming from independent experts, transfers ownership and offers objectivity.

5. Take Up (Financial) Modeling

Any number of events can cause a bond to default. However, the financial outcome is pretty much the same: not enough money in the bank to pay all the bills. Or, as one wag put it, “too much year at the end of the cash flow."

The best thing you or your financial advisor can do is create a cash flow model detailing all the components and the assumptions behind them. This model will frame the analysis for and drive the decision making of every workout solution proposed. It will rapidly become a beacon of truth. No matter how vociferously a stakeholder may advocate for their particular solution, if it cannot demonstrate sufficient cash flow to pay all expenses, it is dead on arrival.

6. Beware the Conservative Projection

Niels Bohr, Nobel-prize winning physicist, is credited with the saying "Predictions are very difficult, particularly about the future." During a workout, inevitably you are going to hear someone declare that their projections "are very conservative."

There is one sure-fire test that measures conservative. Cut every assumption behind those projections in half, then double the time to reach them. Now see how that works in your cash flow model. What you want is not a conservative projection, but a realistic projection. Keep in mind the original financing was based on "conservative projections." How well did that work out?

7. De-Stress the Distressed

Workouts are stressful. No one wants to be involved in one. It's a lousy situation. Most often, everyone takes a hit. People are not at their best. There are countless conference calls, proposals and counter-proposals, extension deadline filings. Emotions run high. Deal fatigue sets in. Simple matters can get contentious and stakeholders adversarial in the heat of the moment.

For the best outcome with the least stress, stay focused on finding the best solutions, be realistic as to time frame and expectations, don't take things personally, and be flexible when considering options.

The Last Step

Through all this, remember why you made this investment in the first place. You likely wanted a steady stream of tax-exempt income and to preserve principal. As you evaluate different solutions, stay focused on those most likely to continue to generate that tax-exempt income and return of principal. It might not be at the 100% you initially expected. But better to come out partially whole than either a rushed solution that leaves you back where you started in a few months or a scorched-earth solution leaving you with nothing at all.

Forbes

by Barnet Sherman

May 6, 2020,02:10pm EDT

House to Feature PABs and BABs in State and Local Stimulus Package.

House Ways and Means Chairman Richard Neal (D-MA) today announced on a call with a group of Mayors that the House is putting together legislation to aide state and local governments struggling with lost revenues due to the ongoing COVID – 19 pandemic.

On top of the expected direct funding, the package will include "tax-advantaged borrowing programs" including [private activity bonds and Build America Bonds].

At this time, it is unknown if the House package will include other BDA priorities such as the reinstatement of advance refundings or raising the limit of Bank Qualified Debt.

Neal has previously advocated for these programs during an earlier infrastructure push that would expand the cap and usage for PABs, while introducing a new Build America Bonds program that would be untethered from sequestration.

Neal also encouraged the group to continue pushing for federal investments in infrastructure, noting an invitation from Secretary Mnuchin to keep discussing that issue.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

April 29, 2020

Strapped States Face Tough Budget Decisions: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses local and state bailout, distressed munis, higher education risk. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

May 8, 2020 — 9:02 AM PDT

Muni Finances Are a Mess But a Once-Junk City Just Got Upgraded.

- **East Providence, R.I. built reserves and developed waterfront**
- **Rhode Island city has rebounded from state oversight**

States and municipalities are facing gloomy financial prospects, but at least one city has something to celebrate.

East Providence, Rhode Island, neighboring the state capital, had its credit rating raised last week by Moody's Investors Service to A1, its fifth-highest investment grade. The city of 47,500 has recorded almost a decade of budget surpluses and is benefiting from residential and commercial development along the Providence River. The former site of an oil tank farm is now home to apartments, condos and a $15 million medical office building.

The upgrade marked the continuing recovery of a city that was put under financial supervision by the state in 2011 after years of budget deficits and underfunded pensions, providing a case study for how other still struggling Rhode Island cities could engineer a turnaround.

“They were kind of up against the wall,” said Tom Jacobs, a Moody’s analyst. “Since then they really have turned it around both in terms of growth in the tax base and just very disciplined fiscal management.”

Moody’s this week changed its outlook on U.S. local governments as it expects the length and intensity of the recession brought on by the coronavirus shutdown to be more severe. Cities like East Providence that rely more heavily on property taxes and have built up reserves are better prepared to withstand cuts in state aid.

With more than 33 million people thrown out of work in the last two months and stores shuttered, sales and income taxes are plummeting. But property taxes should be relatively insulated until 2021 because assessments are set before the collection year, Moody’s said.

Still, cuts to local government services, layoffs and tax increases are coming. Dayton, Ohio has furloughed a quarter of the city’s workforce and is warning that more cuts may follow. Philadelphia Mayor Jim Kenney proposed raising taxes on property, non-resident wages and parking to help bridge a $700 million budget gap.

East Providence is relatively well positioned to weather the storm. About 70% of revenue for its $164 million budget comes from property taxes, with state aid making up most of the balance. The city, which has more than $14 million in reserve, has generated annual operating surpluses for nine years, according to Moody’s.

“It tells you a little about the fiscal management and discipline they’re bringing to the table,” said Moody’s analyst Blake Cullimore.

It took state oversight to impose that discipline. In 2011, then Rhode Island Governor Lincoln Chafee appointed a budget commission to stabilize the city after growing deficits in a school fund, heavy reliance on short-term borrowing and underfunding of its public safety pension. The city’s bond rating was lowered to junk.

The commission cut deficits by consolidating school and city operations and imposed stronger financial management controls. East Providence’s participation in a federal probe of Google over illegal advertising by Canadian online pharmacies yielded a $60 million windfall with most of the money earmarked for the police pension. The state returned financial control to the city in 2013, when Moody’s boosted it out of junk grade, but a financial adviser remained in place until 2018.

Funding for pensions and retiree healthcare remains a challenge. East Providence spends almost 14% of its budget on those fixed costs, with another 3% for debt. Pension costs are set to grow as the economic shutdown triggered by the coronavirus results pummels stocks, widening the city’s $210 million unfunded liability.

Bloomberg Markets

By Martin Z Braun

May 7, 2020, 7:24 AM PDT

[How the State Budget Crisis Could Derail Economic Rebound.]

Holes in state budgets, growing wider as the coronavirus pandemic persists, are a big risk to economists' predictions that the U.S. economy begins to grow again later this year.

Current economic conditions present a substantial challenge for state budgets, say a team of strategists at Morgan Stanley. With nearly 30 million Americans so far unemployed due to the virus and efforts to contain it, joblessness is reducing taxable income and declining retail activity is cutting sales-tax revenue, among other dynamics. Already, unemployment has hit 20% or more in eight states including Michigan, New York and Georgia.

State and local government jobs accounted for 13% of total nonfarm payrolls in 2019, Morgan Stanley notes, and a heavy round of state and local job losses added to the mix would put further upward pressure on the unemployment rate. Since state and local governments can't run deficits, they have to cut expenses—often in the form of layoffs—when tax revenue declines. The strategists say the state and local sector has historically lagged behind in both recessions and recoveries, meaning job losses at the state and local level haven't yet started to pile up.

In terms of broader gross domestic product , state and local government spending equates to state and local government hiring, Morgan Stanley says, because about 75% of state and local spending within the GDP calculation is on the compensation of state and local government employees. Investment spending, such as on highways and other infrastructure projects, accounts for the remaining amount of state and local output. Such spending accounts for about 2% of total U.S. GDP, they say, which means a 10% decline in state and local investment spending would shave 0.2 percentage points from real GDP growth in any given year.

Heading into the pandemic, many states already faced substantial budget shortfalls. Now, estimates are getting revised even lower. In Illinois, where unemployment has hit 12%, the state now projects a 2021 revenue shortfall of 11% of total tax collections. That's as individual income tax is projected to be down 7% and 9% in 2020 and 2021, respectively, corporate income tax is expected to fall 12% and then 18%, and sales-tax revenue is estimated to be down 8% and 18% in 2020 and 2021, respectively.

Illinois is just one example. For states in aggregate, Morgan Stanley predicts the current recession will wipe out three years of state tax revenue growth in its base-case scenario and six years in its bear case. The result is a budget gap ranging from $40 billion to $380 billion over this year and next, the strategists say.

"We see the hole in state and local government revenues as a downside risk to the U.S. outlook should [state and local governments] need to take severe measures in order to balance budgets as they approach the important July 1 date when the state fiscal year begins," the Morgan Stanley strategists say. They suggest the impact on the broader economy will be much greater than the hit during the last recession, when state total tax collections fell 9.5% from peak to trough as income-tax revenue dropped 15% and sales-tax revenue slid 8%. That added up to help produce a 2.5% decline in overall real GDP. Already, the analysts predict a 5.5% contraction for 2020.

Aside from broader economic implications of struggling state and local governments, there are a couple of upshots for investors. One is around downgrade risks if there isn't more fiscal aid targeting states. The Morgan Stanley strategists say they like the high-grade muni market, but they advise investors to stay underweight states and locals relative to enterprise credits such as electric and water utilities.

Second, the analysts say there are two sectors that stand out as particularly exposed to state budgets. Non-residential construction and machinery may be negatively affected, as states reduce capital spending, while gambling may get a lift as more states consider authorizing and taxing sports betting and online gaming to mitigate revenue shortfalls.

Barron's

By Lisa Beilfuss

May 5, 2020 10:02 am ET

States, Cities Cut Payrolls by Nearly 1 Million Over Shutdown.

- **Governments facing massive budget gaps as taxes disappear**
- **Local governments cut about 332,000 jobs outside education**

U.S. states and cities cut their payrolls steeply as the broad shutdown of the economy decimated tax collections, threatening to push them into the worst fiscal crisis in decades.

The number of state and local government jobs fell by 981,000 to 18.9 million in April, according to U.S. Bureau of Labor Statistics data released Friday. The drop, while small compared with the nearly 20 million private sector jobs lost last month, is significant because governments didn't start laying off employees until well after the onset of the last recession.

The pandemic-related shutdowns are leaving local governments nationwide facing ballooning deficits as surging unemployment dashes income-tax collections and the closure of businesses hammers sales taxes, another major revenue source.

With schools shut, the vast majority of the lost public sector jobs were in education and they're likely to be reversed when children return. But local governments also cut about 332,000 jobs outside of school systems. States eliminated 4,300 outside of that sector.

"Everybody in this country, the private sector included, is having to contract," said Erik Walsh, city manager for San Antonio, Texas, which furloughed about 270 employees who work for the convention center and the Alamodome stadium after hotel-tax revenue dropped. "And the city is doing the same thing."

Governors and mayors have pleaded with Congress for aid to help make up for the lost revenue, warning that without it they will need to resort to deep budget cuts and layoffs that would exert a drag on any economic recovery.

States alone may see record deficits of $460 billion from now until June 2021, according to the Center on Budget and Policy Priorities, and California on Thursday projected a shortfall of $54 billion through then, the equivalent to about one-third of its annual budget. The National League of Cities said as many as 1 million Americans on municipal government payrolls could lose their jobs or see pay reduced.

With schools closed, taxes hit, cities idle workers
It typically takes many months for economic slowdowns to affect government revenues. Following the last recession, local governments didn't start cutting jobs deeply until mid-2009, when it was officially coming to an end.

But this time the speed and scale of the downturn is spurring some governments to act more quickly.

Rochester, New York, announced the city would cut 17 positions and that its remaining 386 employees would be subject to furloughs or “work sharing,” which the city said would save $2.1 million.

“We are hopeful that our federal and state governments will step up to help Rochester and other cities,” Mayor Lovely Warren said in a statement. “But we cannot wait.”

Bloomberg Economics

By Amanda Albright

May 8, 2020, 5:56 AM PDT

[Virus Pushes America’s Hospitals to the Brink of Financial Ruin.]()

- **U.S. hospitals say they face more than $200 billion of losses**
- **Consultants predict a coming wave of bankruptcy filings**

The century-old Henry County Health Center in southeast Iowa was already losing money before the pandemic hit. With a shrinking number of births and trouble recruiting staff, it had planned to close its obstetrics department.

Then came the shutdown, which reduced the hospital’s revenue by half as profitable elective surgeries came to a halt. Even with some procedures set to start up again, Chief Financial Officer David Muhs sees no easy recovery.

“You just can’t turn the faucet back on,” he said.

Continue reading.

Bloomberg

By Lauren Coleman-Lochner, John Tozzi, and Jeremy Hill

May 8, 2020, 2:00 PM PDT

Economic Downturn Threatens Cities’ Plans to Sell Housing Bonds.

During her 2017 campaign for mayor of Atlanta, Keisha Lance Bottoms promised to spend $1 billion on programs that would create and preserve affordable housing. Since she took office, the city has funded a number of developments and housing initiatives, including a small program that would help low-income homeowners make critical repairs. The administration released a housing plan last summer that got mixed-reviews from advocates, and launched an affordable-housing tracking tool earlier this year to help the public monitor the city’s progress toward the goal.

In February, the city council started talking about issuing a $100 million housing bond to fund more housing efforts. It was later expanded to $200 million — closer to the commitment that some housing advocates were hoping for.

“This was moving towards bringing in significant resources,” says Frank Fernandez, the vice president of community development at the Arthur M. Blank Family Foundation and a member of HouseATL, an advocacy coalition. “And then, as everyone knows, the world changed.”

[Continue reading.]

NEXT CITY

by JARED BREY

MAY 5, 2020

[S&P Pension Brief: The Future Of U.S. Public Pensions After The Sudden-Stop Recession]

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Key Takeaways

- U.S. public pension funds in aggregate lost approximately $850 billion in the first quarter of 2020.
- A Q2 2020 return of nearly 30% is needed for government-sponsored pension systems to maintain the 73% average funded ratio from a year ago.
- Should experience mirror that of the recent Great Recession, adjustments to reduce plan costs and increase contributions are likely.

Escalating pension obligations caused by the sudden-stop recession are likely to be felt for years by U.S. state and local governments. In the public sector, market returns are built into the funding model and thus make up a large part of pension plan inflows. Should market returns remain below past peaks, the effect of poor returns will result in an increase in employer contributions. To understand the future of U.S. public pensions, we consider the recession impact over three periods:

[Continue reading.]

[S&P: How Job Losses And Rent Moratoriums Might Affect HFA Multifamily Program Performance]

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Perhaps surprisingly, recent data indicate the majority of American renters paid their April rent.

Market information generally is showing collections of over 90% for the month. With the United States shattering previous short-term records for unemployment filings and with eviction moratoriums in place, S&P Global Ratings had wondered whether rent collections could drop to the point where multifamily owners' ability to make their mortgage payments would be stressed and that forbearance provisions could encourage such behavior. The news this month is good, but the duration and severity of the economic downturn may affect that outcome over time, especially in certain hard-hit cities or regions. This article explores how this potential stress could affect housing finance agencies' (HFAs) highly rated multifamily programs.

[Continue reading.](#)

[Municipal and Corporate Borrowers Ramp up Access to Liquidity with Surge in New CUSIP Requests.](#)

CUSIP Request Volume for North American Corporate Issuance Climbs 12.1%, while Municipal Volume Increases 12.6% during Second Month of COVID-19 Crisis

NEW YORK, May 8, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 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 and corporate debt identifiers.

CUSIP identifier requests for the broad category of U.S.- and Canada-issued equity and debt totaled 6,350 in April, up 12.1% from last month and 28.8% versus the same period in 2019. The increase in volume was driven largely by a 12.3% monthly increase in requests for new U.S. corporate debt identifiers. CUSIP Global Services also saw a significant 10.4% monthly increase in requests for bank certificates of deposit with maturities greater than one year. Requests for new U.S. corporate equity identifiers fell 10.1% from March to April.

Municipal CUSIP request volume also increased sharply in April after declining in March. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – climbed 12.6% versus March totals. On an annualized basis, municipal ID request volumes are up 7.8% through April.

"Liquidity has been the one variable keeping the world's central bankers awake at night, and they've been doing everything in their power to ensure access to capital," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "Based on CUSIP request volume for April, it is clear that corporate and municipal borrowers see an opportunity to raise new capital and they are getting into position to access the debt markets."

Requests for international equity and debt CUSIPs both declined in April. International equity CUSIP requests decreased 11.5% versus March and 12.9% on a year-over-year basis. International debt CUSIPs decreased 17.8% on a monthly basis and increased 10.2% on a year-over-year basis.

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

‘Double Whammy’: Oil Crash Adds to Virus Budget Woes in Some States

Alaska is dealing with some especially tough financial issues. In Louisiana, one lawmaker says: “It’s just kind of the perfect storm with the coronavirus and the collapse of oil and gas.”

As the drastic economic downturn driven by the coronavirus stresses state budgets, those with sizable gas and oil industries are dealing with the added pressure of the recent oil price crash.

When the oil and gas sector falters in states where it makes up a large chunk of the economy, tax collections tied directly to the amount of crude and gas pumped from the ground tend to deteriorate. But so do other sources of revenue, like sales and income taxes, as energy companies spend less on equipment and supplies and lay off workers.

These cycles have played out before. But the current one is happening as widespread business closures and stay-at-home orders meant to help stop the spread of the highly contagious virus are also blowing holes in state tax collections. Meanwhile, states are contending with the costs of the public health response and soaring unemployment.

Continue reading.

Route Fifty

by Bill Lucia

MAY 7, 2020

Fitch: Coronavirus Causing Dramatic Differences in State Unemployment

Fitch Ratings-New York-07 May 2020: Economic implications of the coronavirus pandemic have been deep and substantial across the US, and state-level unemployment claims data imply a wide range of effects across states that will drive economic and revenue trends, says Fitch Ratings. Total unemployment claims filed since the start of the economic crisis through the week ending May 2 total nearly a fifth of the entire national labor force.

Individual states are seeing a wide range of claims, from less than 10% of the labor force to nearly a third seeking unemployment benefits. The unemployment claims data, particularly initial claims, is preliminary, subject to revision and affected by various factors including recent federal changes to eligibility and states’ capacity to accept and process claims. Nevertheless, the data provide a useful and timely insight into emerging economic trends across states.

The varied state levels experienced to date point to the uneven effects of the coronavirus and the potential for a wide range of recovery in employment and economic growth across the states. State differences in the spread of the outbreak and relaxation of social distancing measures, along with commercial/industrial mix and other factors, all play a role in the level of job losses and will bear on how quickly individual states can reverse those losses.

Continue reading.

[NABL: Coronavirus Relief Fund - Frequently Asked Questions - Updated as of May 4, 2020]

Treasury has released answers to frequently asked questions (FAQs). These FAQs supplement the Coronavirus Relief Fund's Guidance for State, Territorial, Local, and Tribal Governments, dated April 22, 2020.

You can find the updated FAQs here.

UPDATED: Treasury Publishes FAQs – Coronavirus Relief Fund Payments for State, Local, and Tribal Governments - Ballard Spahr

The CARES Act was signed into law by President Trump on March 27, 2020. The CARES Act established a $150 billion Coronavirus Relief Fund (Fund), through which the U.S. Department of Treasury (Treasury) will make direct payments to each state, eligible units of local government, the District of Columbia, U.S. Territories (the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands), and Tribal Governments. The direct payments can be used this year to help with state and local government expenses incurred in connection with the COVID-19 pandemic. Eligible state, territorial, local and tribal governments were required to apply for direct payments from the Fund by April 17, 2020.

Treasury published the Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments on April 22, 2020 (Guidance) for recipients of direct payments from the Fund. The Guidance sets forth the Treasury's interpretations on the permissible use of Fund payments. Treasury published answers to frequently asked questions concerning the Fund to supplement the Guidance on May 4, 2020 (FAQ). The FAQ provides additional guidance regarding eligible expenditures and the administration of Fund payments.

The CARES Act only permits direct payments from the Fund to cover those costs that (i) are necessary expenditures incurred due to the public health emergency with respect to COVID-19; (ii) were not accounted for in the budget most recently approved as of March 27, 2020 (the date the CARES Act was enacted) for the government entity; and (iii) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. The Guidance offers Treasury's interpretation of these limits and provides nonexclusive lists of examples of both eligible and ineligible expenditures. The FAQ clarifies that governments are responsible for determining what expenses are necessary and will not need to submit expenditures for Treasury's approval. The FAQ also provides answers to specific questions relating to Treasury's lists of eligible and ineligible expenditures in the Guidance.

Treasury provided additional guidance on the following topics, among others, in the FAQ:

- Types of employees whose payroll may be covered by moneys received from the Fund (Fund Payments) – a state, territorial, local, or tribal government may presume that payroll costs for public health and public safety employees are payments for services "substantially dedicated" to mitigating or responding to the COVID-19 public health emergency.
- Transfers of Fund Payments to other government units – states receiving payments may transfer funds to a local government if it qualifies as a necessary expenditure incurred due to a public

health emergency and meets other statutory requirements.
- Ability to use Fund Payments in conjunction with other CARES Act funding or federal funding for COVID-19 relief – expenses that have been or will be reimbursed under any federal program (including reimbursement pursuant to the CARES Act of contributions by states to state unemployment funds), are not eligible uses of Fund payments.
- Use of Fund Payments to support unemployment insurance funds and costs – States may use Fund Payments to support unemployment insurance funds separate and apart from the State's obligation to the unemployment insurance fund as an employer to the extent costs incurred by the unemployment insurance fund are incurred due to COVID-19, and may also use Fund Payments for unemployment insurance costs incurred by the State as an employer if such costs will not be reimbursed by the federal government otherwise under another program.
- Inability of governments to use Fund Payments for government revenue replacement or capital improvement projects – Fund Payments may not be used for government revenue replacement, including meeting tax obligations or paying unpaid utility fees, or for capital improvement projects if they are not necessary expenditures incurred due to COVID-19.
- Return of unspent Fund Payments to Treasury – recipients must return to Treasury unspent Fund Payments or amounts received from the Fund that have not been used in a manner consistent with the Guidance and section 601(d) of the Social Security Act.
- Deposit of Fund Payments in interest bearing accounts – permitted as long as the recipient uses the interest earned or other proceeds of the investment only to cover expenditures incurred in accordance with the Guidance and section 601(d) of the Social Security Act.

Dems Eye Money for Smaller Cities, Towns in Next Virus Bill.

WASHINGTON (AP) — Eyeing a major expansion of federal assistance, top Democrats are promising that small- to medium-sized cities and counties and small towns that were left out of four prior coronavirus bills will receive hundreds of billions of dollars in the next one.

Those cities and counties, where the coronavirus has crippled Main Street and caused local tax revenues to plummet, are pushing hard for relief in the next rescue measure to avert cuts in services and layoffs of workers.

It's an effort that the large class of freshman House Democrats has rallied around, along with many Republicans, and has the backing of key decision-makers like House Appropriations Committee

Chairwoman Nita Lowey, D-N.Y., and House Speaker Nancy Pelosi.

The initial number in an upcoming bill from House Democrats could total $800 billion or more, though it's likely to shrink in any final measure negotiated with Senate Republicans and the White House. That would be more than the huge amounts delivered to the Paycheck Protection Program, the small business relief fund that is especially popular with Republicans.

An earlier, smaller installment of money to local governments was limited to cities with populations greater than 500,000. That threshold channeled money to COVID-19 hot spots like New York City and Atlanta but passed over thousands of smaller jurisdictions packed into each of the 435 congressional districts.

Lowey has announced the upcoming, and fifth, coronavirus response bill will contain money for each county in the U.S., based on population, along with an equal amount of funding for municipalities.

"Unlike the initial CARES Act, I think it is vital we have separate programs for state and local governments, so there is less competition between governors, municipal leaders, and county executives," Lowey said is a recent letter to her colleagues. Pelosi, D-Calif., is encouraging the effort.

The approximately $2 trillion CARES Act, which passed in late March, was the largest of the coronavirus relief bills so far. Democrats successfully pressed for $150 billion in aid to states and local governments, with $120 billion of that aid going to state governments to reimburse them for costs associated with fighting COVID-19.

The other $30 billion went to cities with populations greater than 500,000, which helped cities represented by top leaders like Senate Majority Leader Mitch McConnell, R-Ky., whose home base of Louisville was eligible, as was San Francisco, home to Pelosi.

That turn of events angered some lawmakers, including dozens of newly-elected Democrats from suburban areas left out of the first round.

"There are a number of us, particularly freshmen, who were obviously disappointed" in the first round of the CARES Act, said Rep. Joe Neguse, D-Colo. "All the suburban, swing counties, rural areas … were just left behind."

Conservatives, meanwhile, have embraced the big spending numbers as a bridge to carry the U.S. economy through the coronavirus shock. That's resulted in progressives like Peter DeFazio, D-Ore., aligning with hard-right conservatives like Paul Gosar, R-Ariz., in support of broadly dispersing aid across the country.

The drive to help smaller cities in particular seems to have critical mass, despite growing qualms about the enormous spending and deficit numbers that are being created by the coronavirus relief effort.

"What has been a serious gap since Day 1 is the funding for state and local governments," said Rep. Anthony Gonzales, R-Ohio, a member of the conservative House Freedom Caucus. "We're well run, we're a fiscally sound part of the country, but the reality is our tax base has been devastated." Gonzales appeared on a video conference call on Tuesday with a diverse group of lawmakers projecting a mood of bipartisanship.

Even GOP leaders sound sympathetic. House GOP Leader Kevin McCarthy or California said Wednesday that he'd support a system where city and county governments could directly apply for aid, rather than having the money funneled through their governors.

And McCarthy is rallying behind an effort to loosen the strings on the first $120 billion installment of aid to states to allow them to use it to replace lost tax revenues rather than only for reimbursement for COVID-related costs.

“If some of this money we’ve already sent to the states needs greater flexibility so they can do that, I’m more than willing and open to look at providing them flexibility, especially what we’ve already spent,” McCarthy told reporters.

by ANDREW TAYLOR

May 7, 2020

Associated Press

[Fed’s Mester Says Cities and States Need More Government Support.]

Federal Reserve Bank of Cleveland President Loretta Mester said Washington will have to step up aid to states and cities struggling with the economic impact of the coronavirus pandemic.

“The states and the local governments are definitely going to need more help, and I think the federal government should be thinking about the best way to do that,” Mester said Friday in an interview on SiriusXM Business Radio.

The Fed is preparing to help by lending directly to municipal bond issuers, but direct transfers can only be done by fiscal authorities, she said.

Mester said she expects “much worse numbers” for the second quarter after the U.S. economy contracted at a 4.8% annualized rate in the first three months of the year. A recovery can commence later in the year, she said, as long as re-openings are done cautiously.

“I think there’s a possibility of opening up in the second half of the year, but it has to be done in a very careful way to avoid having to go backwards, because that would be a devastating outcome,” she said.

The Labor Department reported earlier on Friday that employers cut 20.5 million jobs in April and the unemployment rate soared to 14.7%, the highest since the Great Depression era of the 1930s. Joblessness was at a five-decade low of 3.5% just two months earlier.

Bloomberg Economics

By Christopher Condon

May 8, 2020, 8:01 AM PDT

[House Democrats Pushing Ahead With Possible Aid Vote Next Week.]

- **Hoyer says House may not wait for negotiations with GOP**
- **Republicans urging a go-slow approach on next rescue package**

The House could vote on a Democratic plan for the next multibillion-dollar virus relief package as soon as next week — if the party can overcome some internal disagreements about what should be included, Majority Leader Steny Hoyer said.

Although House Speaker Nancy Pelosi has said any additional aid plan would need bipartisan support, Democrats are sorting through proposals that will articulate their own policy proposals. Hoyer said Wednesday that committee chairman are collecting ideas from lawmakers, and once that's done will finish writing the legislation.

"The timing of when we come back will be dictated as to when we are ready and have a bill that is ready for consideration on the floor of the House of Representatives," Hoyer said on a call with reporters. "At that point in time, we will call members back."

The No. 2 House Democrat told reporters the party is in full agreement on the need for money for state and local governments, as well as additional funding for smaller municipalities.

He didn't specify the issues that are still being negotiated within the party and didn't answer a question about concerns being raised by some Democrats in swing districts about moving ahead without first negotiating with Senate Republicans and with only Democratic priorities.

Pelosi, speaking separately on MSNBC, said that she will discuss the way forward on the next bill with members of her leadership team Wednesday, including whether the House should vote first on a Democratic proposal before negotiating with Republicans and the White House.

"I will definitely present that as an option," she said.

Senate Majority Leader Mitch McConnell and other Republicans have indicated they want to slow down work on the next aid package until they can assess the impact of the almost $3 trillion already passed. In addition, President Donald Trump has listed his own demands for the legislation — including restrictions on aid to states, an unspecified payroll tax cut and other changes to the tax law — that have only limited support among Republicans and none from Democrats.

Hoyer said that he hoped discussions with Republicans and the White House would get underway soon to speed the legislation to passage.

"We want to see a bill that's signed. We just don't want a political message," he said.

But if Republicans want to hold off on more aid, Hoyer said Democrats will proceed "to vote upon our priorities."

Bloomberg Politics

By Billy House

May 6, 2020, 10:52 AM PDT

— With assistance by Erik Wasson

Small Investors Ruled the Municipal-Bond World for a Few Days in March.

They were there to jump on bargain prices as the coronavirus crisis prompted big money managers to unload bonds

A rough stretch in the municipal-bond market in March turned out to be a golden opportunity for some household bondholders. Small-time investors are seeing huge price gains on bonds they scooped up that month, as mutual funds were hemorrhaging cash and cities were canceling plans to borrow.

Smaller bond purchases, of $100,000 or less, reached their highest volume in 10 years on March 24, a combined one-day total of $795 million, according to the Municipal Securities Rulemaking Board. About $2.75 billion was purchased in quantities of $100,000 or less over a period of four business days beginning March 19. Bargain prices abounded as the S&P Municipal Bond Index hit a 15-month low that ended only after the Federal Reserve said it would help prop up the market.

“I had never seen it rain that much that hard for that long ever,” said Edward Mahaffy, a Little Rock, Ark., investment adviser who has been managing municipal-bond portfolios for 35 years.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated May 7, 2020 5:30 am ET

Tobacco-Backed Muni Bonds See Boost From Smokers Stuck at Home.

- **Cigarette volumes decline 1.8% this year, less than expected**
- **High-yield tobacco bonds flat in April after 13% drop in March**

The coronavirus pandemic has battered high-yield municipal bonds likely to be stung by the deep economic slowdown. But it’s improving the outlook for one segment of the market: debt backed by the legal settlement payments states receive from tobacco companies.

That’s because the size of the annual payouts are pegged to sales of cigarettes — and consumers stuck idly at home don’t seem to be cutting back much.

Whether its low gas prices, expanded unemployment benefits or bulk purchases by people sheltering-in-place, cigarette shipments have declined only 1.8% this year, according to Management Science Associates Inc., an analytics firm that tracks retail sales. That’s a far smaller drop than the 4% to 6% previously forecast by the tobacco company Altria Group Inc.

Bans on flavored electronic cigarettes may also be buoying traditional cigarette sales, said Mikhail Foux, the head of municipal strategy at Barclays Plc.

“Anecdotally, there’s a consumption increase,” Foux said. “People are sitting home and really have nothing to do.”

Municipal bonds repaid with revenue from a 1998 settlement with major tobacco companies were crushed during the muni market's record sell-off in March, when investors pulled $40 billion from mutual funds in two weeks. High-yield funds sold their most liquid bonds — like the heavily traded tobacco debt — to raise needed cash, driving the securities to a 13% loss in March, according to Bloomberg Barclays Indexes. They've since rebounded along with the broader market.

Ohio's Buckeye Tobacco Settlement Financing Authority bonds due in 2055, which dropped to about 73 cents on the dollar in March after being issued in February at 109 cents, have rallied back to 93 cents.

Money managers unloaded the liquid debt during March mass exodus
Municipal tobacco-bond prices may also benefit from corporate-bond investors looking for an escape from the woes of the energy industry, which dominates the high-yield corporate market, Vikram Rai, a strategist at Citigroup Inc., said in a call with clients Monday.

"We expect tobacco will get some tailwind from this phenomenon," he said.

Bloomberg Markets

By Martin Z Braun

May 4, 2020, 11:17 AM PDT

— With assistance by Amanda Albright

Chapter 9 Bankruptcy Protection: The Final Option for Municipalities?

Many municipalities are facing strained budgets, or possibly worse, in light of severely reduced sales tax income and aggravated further by actions or inaction of the state legislature. It is difficult to predict with all the variables in play where municipalities' revenues are going to be in the next six months or longer. This may result in a municipality being figuratively put "out of business." If a municipality cannot pay its bills or bond obligations, there is a little known and seldom used provision in the Bankruptcy Code that should be explored — Chapter 9.

Chapter 9 of the Bankruptcy Code provides struggling municipalities with protection from creditors while they reorganize and renegotiate debt. Cities, counties, townships, school districts, public improvement districts, and other tax-funded entities — such as bridge, highway and gas authorities — are eligible for bankruptcy protection under Chapter 9.

Municipalities may obtain protection and relief by filing a petition and providing a list of their creditors, either with the petition or shortly afterward. Notice of the bankruptcy proceeding will then be sent to known creditors and other potentially interested parties. Creditors might challenge the petition and try to deny relief to the municipality. Experienced bankruptcy counsel can defend against such challenges, however, and show that the municipality is entitled to protection and relief under Chapter 9.

Chapter 9 municipalities are entitled to an automatic stay on all debts. This means that any collection efforts, including lawsuits and judgments, must immediately stop against a municipality in bankruptcy and are immediately suspended once a petition is filed. Municipalities are also excused from making principal or interest payments on general obligation bonds during the case. However, the bankruptcy does not operate as a stay for the application of pledged special revenues for payment of the indebtedness secured by those special revenues. In other words, a holder of a claim payable solely from special revenues can get paid during the bankruptcy from those special revenues.

Bankruptcy proceedings do not prevent municipalities from conducting normal operations or from using their property and revenue, as needed. Municipalities remain free to continue their typical day-to-day activities — and may even obtain credit and borrow money — throughout the bankruptcy process.

Municipalities are also permitted to renegotiate or reject certain contracts, including collective bargaining agreements, retiree benefit plans, and leases, subject to court approval, while the case is ongoing. Notably, municipalities in bankruptcy cannot be forced to liquidate assets to pay creditors. This provides them with greater protection than businesses pursuing bankruptcy and ensures that municipalities keep the resources they need to serve residents.

A key component of a Chapter 9 proceeding is filing a plan to adjust municipal debts and ensure long-term solvency. It is the municipality's responsibility to propose a viable and fair plan that conforms with the Bankruptcy Code and other laws, covers reasonable costs related to the case, and pays creditors their original or renegotiated sums owed. Experienced bankruptcy attorneys can draft such a plan, and renegotiate and restructure debt obligations prior to its filing, to ensure that the plan survives any objections and is approved. Given the current situation with COVID-19, we would expect the income of the municipality to resume to prior levels before the pandemic at some point, thereby allowing the municipality to submit a workable plan to pay off its debts or a portion of them.

A Chapter 9 bankruptcy case ends once the plan is approved and the municipality properly deposits any funds that are meant to be distributed under the plan. The bankruptcy court will retain jurisdiction over certain aspects of the approved plan if there are disputes or issues.

Greensfelder Hemker & Gale PC – Peter Mueller, Randall Scherck and Sheldon Stock

April 30 2020

Check Out Your State - And Maybe Sell Its Tax-Exempt Bonds.

Which muni bonds are at risk? The ones from states with outsized pension debts.

Rent strikes. Moratoriums on foreclosures. A collapse in the tax revenues that support municipal bonds.

The suppliers of capital—landlords, banks, bondholders—are about to experience some unpleasantness. This report will look at prospects for the third group, savers who lend money to states and municipalities. To give away the ending: Tax-exempt bonds are dangerous.

So far into the 2020 recession, distress in the muni bond market is scarcely discernible. There was a moment of panic in March, but it was quickly over when the Federal Reserve stepped in to bid up the short-term paper of states and cities. Municipal bonds are currently fetching high prices, an average 12% premium over par value in the Vanguard Tax-Exempt Bond index fund.

Continue reading.

Forbes

by William Baldwin

Apr 26, 2020

State and Local Governments Pinched as Pandemic Hits Tax Revenue.

We've been seeing how individuals, families and businesses are feeling the economic consequences of the pandemic. Now, there's growing alarm over the ripple effect that's hitting local and state governments, as tax revenue craters.

Congress is debating how much support to provide and just how governments could spend any money that comes their way. And the Federal Reserve has taken the unusual step of saying it's willing to purchase municipal bonds to help provide a backstop.

As far as state budgets go, April was supposed to be a pretty good month.

"About 15% of all income tax revenues in any single fiscal year is collected in the month of April," said Lucy Dadayan, a senior research associate at the Urban Institute.

But 35 states plus Washington, D.C., extended income-tax deadlines to July 15, so a lot of that expected revenue isn't coming for a while.

Richard McGahey, an economist at the New School, said that for many states, "that means they don't know how much tax revenue they've got coming in till after their fiscal year starts, making it even harder for them to forecast revenues."

Even harder because other revenue numbers, like sales taxes, are in flux as well. Tim Ryan, a municipal bond portfolio manager at investment firm Nuveen, said some states can just take the hit.

"Certain states have more rainy-day funds than others," Ryan said. "But I think many will probably look to the bond markets to at least provide some stopgap financing."

The municipal bond market is where towns, cities, states and transportation systems go for cash in a pinch. Usually, investors love muni bonds, and the Fed stays on the sidelines. Now, the central bank says it will spend as much as $500 billion to stabilize the market.

But not all states are jumping at the opportunity.

For example, in New Mexico, Deputy Treasurer Sam Collins knows revenue is going to take a hit.

"We estimate it's going to be something in the range of $300 million to $400 million," Collins said. "That will be delayed from March, April, May and June to July."

But he still views the Fed's program as a last resort. For now, he thinks the losses are something the state can absorb, although he says the full picture won't be clear until May.

marketplace.org

by Kimberly Adams

Apr 30, 2020

Covid-19 Related Municipal Defaults Begin.

The COVID-19 pandemic has come to the municipal bond market. So far, 5 issuers of $407 million in bonds have used it as an excuse for not making their scheduled interest and principal payments and 2 have even used it to request additional draw-downs of reserve funds. The magnitude of the problem, however, will likely be much, much bigger. We note there are some 236 issuers of $23.89 billion who have been failing to make their scheduled monthly payments and relying on the bond reserve accounts to make up any shortfall. How many of them will now see a plausible excuse to cutoff fund remittances altogether? Hospitals and retirement facilities will likely stop payments unless they can qualify for federal loans and aid. In fact, would it surprise anyone to see a wave of lawsuits by relatives of those who died from the virus. And what about those private purpose issues which had to shut down or are dependent on sales or other tax revenues and now need cash to start back up. They are vulnerable because the bonds often represent the only capital invested in the project. We may see bond issuers going back to the current large bondholders and asking for loans of a secondary issue.

In the case of nursing and retirement homes, knowing the story and characters behind numerous deals, not collapsing would be the surprise. As some are fond of thinking, “A crisis is a terrible thing to waste.” We will keep track of those using the pandemic as an excuse for their failure and let you know who is blowing smoke. We expect that numerous projects and issues will fail, but mainly because for many, failure has been in the cards for years. Stay up-to-date with our newsletter, the *Forbes/Lehmann Distressed Municipal Debt Report* at distresseddebtsecurities.com.

Forbes

by Richard Lehmann

Apr 28, 2020,04:45pm EDT

Coronavirus Shutdown Weighs on Higher-Risk Muni Issuers.

Investors are rattled as low tax revenue, big payouts and underfunded pensions add to strain

Though some municipal bonds have rebounded alongside other markets in the past few weeks, the economic impact of the coronavirus pandemic is weighing down some higher-risk issuers, increasing strain on muni borrowers and rattling some long-time investors.

U.S. state and local governments borrow from investors in the form of municipal bonds, pledging a range of taxes and fees to repay the debt. But with many businesses shut down, cities and counties are collecting far less in taxes on restaurant meals, hotel stays and car rentals. Meanwhile, states are being forced to distribute hundreds of millions of dollars in unemployment checks to residents from whom they recently collected income taxes.

Adding to the financial pressure in the nearly $4 trillion municipal bond market, major public pension fund investments are down by $419 billion in the first quarter as a result of the virus' market impact, according to Milliman, a consulting and actuarial firm. Analysts at the major ratings firms are lowering municipal outlooks by the dozens.

Continue reading.

The Wall Street Journal

By Heather Gillers

April 27, 2020 5:30 am ET

Muni Market Stages New Sell-Off on McConnell, Supply Wave.

- **Tax-exempt bond prices drop as deals return, boosting supply**
- **Illinois, New York MTA are planning to sell debt next week**

The $3.9 trillion municipal-bond market is locked in a slow-motion sell-off amid concerns about the financial damage the economic slowdown is inflicting on states and cities.

The securities have struggled to recover from a historic rout in March as buyers fled at the fastest pace on record, causing prices to tumble by the most in at least four decades. While the bonds rebounded after the Federal Reserve intervened in the market, investors are still concerned about the growing toll the slowdown is taking on the tax revenue of governments nationwide.

It didn't help that Senator Mitch McConnell last week said he would be open to states pursuing bankruptcy in lieu of Congress providing more federal aid to cover their deficits. While investment firms and officials like New York Governor Andrew Cuomo were quick to condemn his comments, it may have shaken the confidence of retail investors who dominate the municipal market by raising the specter that Washington will leave them to fend on their own.

Continue reading.

Bloomberg Markets

By Amanda Albright and Danielle Moran

April 28, 2020, 12:15 PM PDT Updated on April 28, 2020, 1:43 PM PDT

Muni-Market Doomsday Preppers Buy Basics: Water and Power Bonds.

- **So-called essential service bonds provide refuge in crises**
- **Unlikely to be hit as hard as cities, airports, civic centers**

No matter how bad the economic carnage gets, Americans will still need water and electricity.

That's been a classic fall-back strategy for municipal-debt investors hunting for a refuge during times of turmoil, like the pandemic that's now threatening to push states and cities into the worst fiscal crisis in decades.

So some money managers are moving into bonds backed by the revenue of water, sewer and electricity systems — services that residents effectively can't do without. That's made them one of the few reliable places to hide in the $3.9 trillion market that finances states and cities, toll roads, civic centers, hospitals and airports, all off which are being hit hard by the steep economic slowdown.

Sheila May, director of municipal-bond research at GW&K Investment Management LLC, said her firm has been looking for bonds that will "hold up" better, finding that so-called essential service debt may be a way to avoid some of the new risks that the pandemic poses.

"This virus doesn't impact the need to have water and power and so on," she said.

The shift to such sectors comes as credit is starting to matter again in the state and local government bond market, where only months ago investors were demanding little extra yield to own even the riskiest securities. But with unemployment surging, tourism virtually non-existent and massive deficits forecast for states, S&P Global Ratings changed its outlook on all public finance sectors to negative earlier this month.

Spartanburg, South Carolina, which this month sold bonds on behalf of its water system, said it hasn't seen a huge hit from shutdowns in the area, according to bond documents. Its April 20 reading of meters for its largest commercial and industrial clients showed that usage has held steady, the documents said. One of the clients that did reduce usage, however, was Wofford College, which sent students home.

That doesn't mean such systems are exempt from financial stress. Pennichuck Corp., a water utility company in New Hampshire, warned that its revenues could be affected if customers start missing payments, according to bond documents. Because the utility is restricted from turning off customers' water to force them to pay, that could hurt its earnings, it said. A subsidiary of Pennichuck sold municipal bonds earlier this month.

Yet, even debt issued for the riskiest electric power companies and water and sewer utilities has avoided the steep losses that the broader high-yield muni market has seen.

Junk-rated water and sewer bonds have fallen 3% this year, while high-yield municipals have dropped almost 10%, according to Bloomberg Barclays indexes. Overall, electric system backed debt has lost 0.7% this year while water and sewer bonds have been effectively unchanged, better than the 1.6% loss for the broader municipal market.

Franklin Templeton said in a report last week that it viewed water and sewer municipal bonds favorably. But the firm noted that there are still risks that the pandemic poses given that business shutdowns could affect revenues.

While both water and power bonds also face the risk that residential customers will fail to pay their utility bills, they are usually only skipped as a last resort.

May, the analyst at GW&K, said those bills typically represent a small part of people's income, which will help reduce delinquencies.

"It's generally not one of the things that people can't afford in this type of environment," she said.

Bloomberg Markets

By Amanda Albright

April 29, 2020, 10:39 AM PDT

Moody's: Strong Resiliency and Liquidity of Toll Roads Offset Some of Coronavirus's Credit Negative Effects

Read the Moody’s Outlook.

Moody’s Analytics | Apr. 28

Moody's: Public Power Utilities Remains Stable but Sector Will Likely Face Lower Liquidity and Coverage in 2020-21.

Read the Moody’s Outlook.

Moody’s Analytics | Apr. 28

Moody's Outlook: Transportation Outlooks Largely Negative as Coronavirus Saps Demand; Utilities Outlooks Remain Mostly Stable

Read the Moody’s Outlook.

Moody’s Analytics | Apr. 28

S&P: Outlooks Revised On Certain U.S. Not-For-Profit Higher Education Institutions Due To COVID-19 Impact

Table of Contents

CHICAGO (S&P Global Ratings) April 29, 2020–S&P Global Ratings revised the outlooks to negative from stable and affirmed its ratings on certain U.S. not-for-profit colleges and universities (including all related entities), due to the heightened risks associated with the financial toll caused by the COVID-19 pandemic and related recession (see tables 1 and 2). For the same reasons, S&P Global Ratings revised the outlooks to stable from positive and affirmed the ratings on certain other U.S. not-for-profit higher education institutions (see table 3).

The public and private colleges and universities affected by these actions include primarily those with lower ratings ('BBB' rating category and below), but also those entities that, in our opinion, have less holistic flexibility (from both a market position and financial standpoint) at their current rating level. Although liquidity, as measured by available resources compared to debt and operating expenses, was the primary metric assessed, an institution's overall credit profile, including draw, selectivity, matriculation rates, operating margins, and revenue diversity, was also considered. For public institutions, reliance on state operating appropriations and expectations around future funding levels was also an important part of our assessment.

A negative outlook reflects our view that there is at least a one-in-three chance that operating and economic conditions will worsen to a degree that affects the ability of the college or university to maintain credit characteristics in line with the current rating level.

Continue reading.

Fitch: USPF Housing Defines Coronavirus Scenarios for Loan Program Models

Fitch Ratings-New York-30 April 2020: Fitch Ratings' U.S. Public Finance Tax-Exempt Housing team is monitoring the global pandemic and all the implications that go along with it; these are outside the calibration of Fitch's regular through-the-cycle analysis, which is meant to capture sensitivity to more normal cyclical patterns. To reflect this unprecedented stress, Fitch has revised various assumptions relating to loan loss severity and frequency, liquidity and operating income stress to align with Fitch's Global Economic Outlook and its company-wide baseline case scenarios. For more information about Fitch's baseline and downside coronavirus scenarios, see 'Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases – Update'.

This report describes changes in the assumptions used in the analysis of Housing Finance Agency (HFA) loan programs. For the single-family whole loan programs the changes are directly correlated to the change in the "U.S. RMBS Loan Loss Model Criteria" outlined in the "Exposure Draft: U.S. RMBS Coronavirus-Related Analytical Assumptions". This criteria is used in conjunction with Fitch's "U.S. Housing Finance Agency Loan Program Criteria". In addition, this report describes how Fitch will analyze HFA multifamily pool programs that will experience increased delinquency rates in their portfolios due to moratoriums on evictions along with a rise in operating expenses. This report is specific to HFAs with multi-family programs that are not 100% guaranteed by Federal Housing Administration (FHA) or Government Sponsored Entities (GSE). Future rating reports will detail how USPF housing will define and apply the new scenarios to those ratings.

Fitch does not anticipate rating changes as a result of these changes; however, the Rating Outlook or Rating Watch status may change depending on the impact upon review of third party cash flows with the new assumptions.

Fitch's longer lasting downside scenario envisions a longer, more severe downturn than the baseline scenario and as such would have a greater impact on home prices and sustainable home prices and would negatively impact both investment-grade and speculative-grade housing sector ratings. Longer-term impact to sustainable home prices will naturally flow through the macroeconomic variables inherent to that model that are updated each quarter. Fitch does not anticipate changing the analytical assumptions associated with the Sustainable Home Price (SHP) model, rather values may be lower over time as new macroeconomic data and forecasts are updated. Fitch will qualitatively describe the potential impact under this sensitivity and quantify the impact over time as updated forecasts are input into the SHP model.

Single-Family Loan Loss Analysis

One of the key stresses incorporated into the third-party cash flows is the loan loss rate. The loan loss assumption reflects the riskiness of the program's asset quality. For the guaranteed mortgage backed securities (MBS) portion of the portfolio, the residential mortgage back security model is not run, and a zero loss is assumed in the cash flows. For the FHA-insured portion of the portfolio, a 3% loan loss assumption is incorporated into the cash flows, unless historical performance data provided for the program deviate from that assumption, in which case the loan loss assumption will be based on the data provided by the HFA. For all other insured or uninsured loans in the portfolio, an expected loan loss assumption for a specific loan pool is calculated by multiplying a loan loss severity factor by an expected loan default frequency factor. Arriving at these individual factors, pre-COVID-19, was a two-step process as described below.

Expected Loan Loss Severity

For single family whole loan portfolios that Fitch reviews on a loan-by-loan basis, the tax-exempt housing group employs Fitch's U.S. RMBS loan loss model to derive a portfolio loan loss severity assumption. Once the data for the portfolio on an individual loan basis are input into the RMBS model, a loss severity output is produced at each rating level. The severity output factors in the mortgage insurance provisions for the portfolio. For more information regarding the model inputs, see the Loss Severity section of the "U.S. RMBS Loan Loss Model Criteria" For tax-exempt housing transactions, the model is not used to set enhancement levels for the bond program or to create thresholds for rating levels. This analysis remains in place and will continue to be employed.

Expected Loan Loss Frequency

To arrive at an expected loan loss frequency factor, Fitch reviews the program's historical 60+ day loan delinquency data and compares that to both the program's current 60+ day loan delinquency data and the current 60+ day delinquency data for FHA fixed-rate loans in the state as reported by the Mortgage Bankers Association (MBA). Generally, Fitch then applies a multiplier of 2.0x to either the current HFA reported 60+ day delinquency rate or to the most severe historical rate that the program experienced during the HFA industry's peak delinquency period between 2009 and 2013 to arrive at a frequency stress. In cases where the trend of delinquencies is rising, declining slowly, showing quarter-by-quarter high volatility and/or the portfolio is underperforming state trends, Fitch generally applies a 2.0x multiple to the higher historical 60+ day delinquency rate to keep the stress assumption at the higher stressed frequency. When the housing trends within the state appear to be strengthening and the loan program performance signifies an ongoing trend and a more permanent shift, Fitch will likely apply the 2.0x multiplier to the current 60+ day delinquency rate to arrive at a frequency assumption.

Given the nature of the current environment, in some instances employing the 2.0x multiplier will be reserved for post crisis analysis as described below.

Changes to the Loan Loss Assumptions

Fitch is introducing a new forbearance delinquency cash flow scenario by loan type to reflect expected utilization of the payment holidays. Mortgage forbearance can either refer to a temporary or payment forbearance or it may refer to principal forbearance that result from a loan modification. Fitch believes the payment holidays being announced will function as a temporary or payment forbearance. The magnitude of the assumptions is based on observed delinquencies for HFA borrower in each loan type as observed from post crisis or recent natural disasters.

Fitch will begin applying the Payment Holiday Liquidity Stress effective immediately to coincide with the expected start of the payment holidays. These payment holidays are envisioned to be finite in nature; and therefore, Fitch will begin stepping down the stress in October 2020 and remove the stress completely by January 2021 under Fitch's baseline case. If macroeconomic conditions deteriorate beyond what is envisioned in the baseline case, these timelines may be extended.

Liquidity Stress
For HFA single family whole loan programs, Fitch is assuming 30% of borrowers will receive payment holiday for six months. Therefore, Fitch will assume the higher of 30% or 2.0x the historic delinquency rates as the expected loss frequency for a six month period in order to stress the loan loss assumption during the global pandemic. For the cash flow loan loss assumption beyond the six-month period, Fitch will assume a loss frequency based on employing the 2.0x multiplier as described above. Fitch will continue to use the RMBS loan loss model to derive the portfolio loss severity assumption. The underwriting quality and large liquid reserves are likely to cushion the immediate impact; however, this will depend on the number of borrowers needing payment holiday.

Fitch does not anticipate rating changes as a result of this new stress; however, the Rating Outlook or Rating Watch status may change depending on the impact upon review of third party cash flows with the new assumptions.

Fitch may decide to extend the payment holiday assumptions for longer than six months and/or may change the utilization rate if evidence shows utilization of payment holidays for longer periods or a greater number of borrowers utilizing payment holidays as a result of the health and subsequent economic crisis caused by the coronavirus.

Multi-Family Loan Stress Analysis
The main method of calculating a multifamily bond program's financial strength is gauging the level of overcollateralization present, or the amount that assets exceed debt. The primary ratio used to capture this is the financial asset parity ratio. This ratio is calculated by dividing the dollar amount of total program pledged assets (including the multifamily mortgages and amounts on deposit in program funds and reserves) by the total amount of bonds outstanding. While Fitch is not changing the underlying approach to analyzing these programs, we are considering the current environment's impact on a HFAs portfolio.

Since Fitch deems the debt service coverage ratio (DSCR) to be most important in the analysis, it begins the review by benchmarking each individual subsidized and uninsured/unsubsidized loan's DSCR. Fitch's approach considers subsidized properties to provide a higher degree of predictability to a project's revenue stream than unsubsidized properties given the more stabilized cash flow from federal and state subsidies. As such, the DSCR parameters for subsidized loans are lower than those for uninsured/unsubsidized loans. Fitch has observed that excess assets are typically provided for loans that are underperforming the benchmarks referenced in the "U.S. Housing Finance Agency Loan Program Criteria". To stress the existing HFAs multifamily portfolio under Fitch's baseline scenario, Fitch will continue to use outlined DSCR benchmarks by rating category; however, we will stress the underlying assets in each portfolio.

Multi-family Operating Income Stress
Fitch looked at data from the National Multifamily Housing Council (NHMC) Rent Payment Tracker on over 11,000 units nationwide as of April 2020. Affordable housing rental properties often fall into the Class C category. Based on the NHMC tracker these properties by mid-April experienced an 85% payment rate or 15% either non-payment or delayed payment. Fitch used this data as a proxy for rental payment performance and stressed the assumption by doubling the 15% in non-rental payment to 30% to account for potentially greater financial challenges for renters over the next six months. Fitch also added a 10%-20% increase in operating expenses due to virus mitigation efforts.

For affordable housing multifamily pools Fitch will assume that 30% of each unsubsidized property will experience non-payment or a lag in payment in addition to a 10%-20% increase in operating expenses during a six-month period. This will be a total discount to the reported DSCR of 50%. For subsidized properties, Fitch will assume that the rental payments will continue to be in effect however, the property will experience an increase in operating expenses of 10%-20%, thereby discounting the DSCR by 10%-20%. By applying these stresses to each property in any given portfolio, Fitch has assessed the likelihood of rating pressure due to a decline in the net operating income via a discount to both revenue and expenses.

Generally, the sources of excess funds are primarily the programs themselves. The program's asset parity ratio is calculated by using the issuer's audited financial statements and the balance sheet for that bond program. Fitch's approach arrives at its excess assets assessment consistent with the portfolio's risk profile and compares that with overcollateralization available in the bond program to support the rating or the agency's general fund, if backed by the general obligation of the HFA. A typical housing bond program rated in the 'AA' rating category maintains an asset parity ratio of no less than 102% net of any excess assets or loan loss reserves. HFAs that fall to 102% will experience rating pressure.

Fitch may decide to increase the DSCR discount rates if evidence shows a higher percentage of non-rental payments for a prolonged period, as outlined in our downside scenario.

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Cybercriminals Are Beginning to Master the Exploitation of Public Entities: Squire Patton Boggs

In March, 2020, a smaller municipality of approximately 145,000 people fell victim to a sophisticated ransomware attack. When city officials issued statements to the public that personal information ***was not compromised***, the cybercriminals retaliated. The bad actors flooded the internet and dark web with personal information from a portion of the stolen 200 gigabytes of data, and demanded nearly $700,000 in a ransom payment from the city coffers to make them stop. As a result, not only did the criminals shut down critical city functions with a traditional ransomware attack, they displayed a new and emerging tactic – exfiltration of personal data to extort ransom payments from smaller municipalities.[1] Historically, municipalities have been reticent to pay ransoms, choosing instead to rebuild their infrastructure. However, given that this response is becoming untenable, municipalities are now more lucrative targets.

In particular, smaller cities and publicly funded entities are becoming welcomed targets because they are often underfunded and underprepared for a sophisticated attack. Further, cybercriminals understand and exploit public officials' responsibility to keep the public informed – which often triggers public officials to rush to make public statements prior to understanding the full scope of the attack. In this case, the bad actors leveraged public misstatements to embarrass and strong arm the municipality into paying a pricy ransom (whether city will pay is unclear). But as ransomware attacks become more sophisticated and directed at smaller municipalities at a greater pace, there are certain steps public sector leaders should consider in evaluating their cybersecurity posture and planning for what some say is the inevitable cyber-attack.

The first step in evaluating a municipality's existing cybersecurity posture is to conduct a Cybersecurity Threat Risk Assessment ("Assessment"). The purpose of this Assessment is to identify cybersecurity vulnerabilities in its policies, procedures, and IT environment and to provide remediation strategies as appropriate. As a best practice, an outside team, comprised of an IT firm and cyber counsel, provides a specialized and objective evaluation. Certainly the pandemic is creating distressed situations, which makes the competition for investment dollars stiff. However, a detailed evaluation of the municipality's cyber-risk profile and documented steps taken to remediate any gaps is an easy way to signal to potential investors and ratings agencies that the municipality is worth the investment.

Next, such an Assessment must include a review (or creation) of the municipality's Incident Response Plan ("IRP") – the municipality's systematic and documented method of approaching and managing its response to a cyberattack. At the heart of an IRP is the inherent strategy to first understand the scope of the cyber incident before issuing statements, especially to the public. When smaller cities appear to be disorganized or underprepared in their response, it can alert the public and savvy municipal investors that the city lacked the proper internal controls to protect its sensitive information. This tarnishes the city's reputation and highlights a poor cyber-risk mitigation strategy, which hurts public confidence and possibly the receipt of much needed investor capital.

Finally, municipalities should test their IRP via a mock cyberattack exercise to make sure that key people know what to do, who to contact, how to communicate to the public, and how to respond to the crisis, especially in the current operating environment where many officials likely will have to control the situation with a remote response force. Remember, many IRPs were developed prior to the pandemic and may not be easily executed in today's operating environment.

With a little up front planning, smaller municipalities can show potential investors that they have mitigated their cyber-risk in the wake of this new cyber tactic. After all, and no matter the goal, the front-end cost of an Assessment and IRP will be far greater than potential recovery efforts absent one – as exemplified by the $700,000 ransom recently demanded.

Our Data Privacy & Cybersecurity, Restructuring & Insolvency, and Public Finance Practices are well-positioned to help navigate what risks impact the public sector. We can also assist in overall cybersecurity compliance efforts and help develop integrated compliance policies that can be administered effectively and efficiently in the face of uncertain times and operating environments.

[1] See, e.g., *LA County Hit with DoppelPaymer Ransomware Attack*, (last accessed April 26, 2020).

Productive Public-Private Partnering In Times Of Public Crisis: Now Is the

[Time for A National Investment Authority, A National Investment Council, Or A Health Finance Authority]

I. Introduction: Public/Private Partnering – When, Why, & How

We are there again, friends…

In late 2008 and well into 2009, policymakers across our political spectrum – from Larry Summers to Glenn Hubbard, and from Barack Obama to John McCain – pushed for our public sector to buy stakes and attendant internal governing rights in our nominally private sector firms. Before that, from the 1930s well into the Cold War 1950s, policymakers not only pushed this, but did it – they made it happen. And earlier still, during the earliest decades of our nation's first economic development, Alexander Hamilton's First Bank of the United States, followed by Albert Gallatin's Second Bank of the United States – both of them government instrumentalities – capitalized vulnerable infant industries by taking direct stakes in all relevant firms and then helping guide them from within.

These stakes effectively made government agencies owners, with all the rights shareholder-owners have always enjoyed and, in some cases, even more rights than that. They partnered public representatives possessed of a long-term 'national view' with private sector representatives who had 'ears to the ground.'

Continue reading.

Forbes

by Robert Hockett

May 3, 2020

[Community QE2: Newly Eased Terms and a New Game Plan For Use]

I. Introduction

This week the Fed announced further easing of its three-week-old Municipal Liquidity Facility ('MLF,' 'Facility') for States and their Subdivisions struggling to address the national COVID-19 pandemic. Because this revised rendition of Community QE, as I call it, will be functioning as a literal lifeline to States and their Subdivisions, and because it remains, in light of its novelty, as unfamiliar as it will be essential, I will in this column briefly summarize what the newly eased Facility enables now and will likely enable in future. I'll also elaborate an updated three-phase 'Game Plan' for States and Cities to put into operation with all deliberate speed – particularly if they have not yet acted on the earlier Game Plan I put out at the beginning of April.

II. The Revised MLF: Key Current Provisions

The revised MLF will continue to operate under color of Section 13(3) of the Federal Reserve Act ('FRA'), which grants the Federal Reserve emergency lending authority in exigent circumstances. The Fed exercises this authority through purchase and hence 'monetization' of financial instruments. In this case the instruments in question will be what the MLF Term Sheet calls 'Eligible Notes' issued by 'Eligible Issuers.' The following provisions are of the most immediate importance. Present exceptions to, and likely future liberalizations of, terms are highlighted along the way.

Continue reading.

Forbes

by Robert Hockett

May 2, 2020

Trump Questions Whether to Aid States in Next Coronavirus-Stimulus Legislation.

President asks why taxpayers should bail out 'poorly run states' and cities, which he says are all controlled by Democrats

WASHINGTON — President Trump said he is skeptical of providing funding for states in the next round of coronavirus relief legislation, throwing into doubt the administration's support for hundreds of billions of dollars sought by Democratic leaders and state governors of both parties.

"Why should the people and taxpayers of America be bailing out poorly run states (like Illinois, as example) and cities, in all cases Democrat run and managed when most of the other states aren't looking for bailout help?" Mr. Trump tweeted Monday. "I am open to discussing anything, but just asking?"

In the run-up to the passage of the most recent stimulus bill last week, Mr. Trump said he supported more state and local funding in the next round, and Democrats and the Trump administration said it would be a priority in the talks. But since then, Senate Majority Leader Mitch McConnell (R., Ky.) has termed the potential aid a "blue state bailout" for the troubled pension funds of large Democratic-controlled states.

"We do want to help [states] with expenses that are directly related to the coronavirus outbreak," said Mr. McConnell in a Fox News Radio interview on Monday. "But we're not interested in helping them fix age-old problems that they haven't had the courage to fix in the past."

Mr. McConnell also said health-care providers and businesses need protection from potential lawsuits related to the crisis, calling it his "red line for the next negotiation."

Democrats rejected the criticism. New York's Democratic Gov. Andrew Cuomo defended his state on Monday as the "number-one giver," saying "nobody puts more money into the pot" than the state, referring to the amount states pay in taxes compared with how much funding they receive from the federal government.

Illinois Sen. Tammy Duckworth, a Democrat, called the president's tweet "a ridiculous statement from someone who is supposed to be the President of the UNITED States of America," in a tweet of her own. "We are in all in this together and it's literally the Federal Government's job to help every state weather a national crisis."

Last month, Congress passed a $2.2 trillion aid package with $150 billion for state and local governments, but the money can be used only for coronavirus-related expenses. Another round of stimulus spending that Mr. Trump signed into law last week included more money for small businesses and hospitals, but no additional state and local funding.

Some governors raised the issue of direct aid for states during a conference call with the president Monday, according to a recording of the conversation listened to by The Wall Street Journal.

Oklahoma Gov. Kevin Stitt, a Republican, asked for more time before Congress decides on whether and how to allocate money to states in another round of stimulus legislation. The last bill “has not even really hit our state yet,” he said. “We need to figure out if we need more before we go back to the well again for a fourth round.”

New Jersey Gov. Phil Murphy, a Democrat, made a pitch for direct aid, saying the money would fund core emergency services and keep government workers from being laid off. “I think about it two ways: One is this is really funding for firefighters, the police, the teachers, the EMS folks, that’s where that money would go and we need it,” he said. “And frankly, we’ve already got unemployment, huge challenge in this country. Again, whatever you can do with direct state funding would be great.”

The National Governors Association has asked for an unrestricted $500 billion for states, and some governors have said they may need to lay off first responders and teachers if Congress doesn’t help. Illinois Senate President Don Harmon asked Congress for more than $40 billion, including $10 billion to help its struggling pension program, according to his spokesman, who said the request reflects the likely impact over three fiscal years.

In an acknowledgment of the strains municipalities are facing, the Federal Reserve said on Monday said it would expand a program it is establishing to provide financing to state and local governments squeezed by declining tax revenue. It would buy debt of up to three years in maturity issued by 261 municipal borrowers, including the 50 states, the District of Columbia, counties of at least 500,000 residents and cities of at least 250,000. It had previously limited the program to counties of at least 2 million and cities of 1 million. The Fed will lend up to $500 billion through the program.

The timing of when Congress would consider future coronavirus legislation is unclear. Mr. McConnell plans to reconvene the Senate next Monday and called for legislation to protect health-care workers and entrepreneurs from lawsuits and liability related to the crisis. The House is also set to return next week.

House Speaker Nancy Pelosi (D., Calif.) said Monday that funding for states is critical for the next bill.

“We have to have state and local,” Mrs. Pelosi said on MSNBC on Monday. “We have to protect our heroes: the health-care workers, the first responders, police, fire, emergency services, people transportation, food, the Postal Service and the rest.”

The Wall Street Journal

By Natalie Andrews and Catherine Lucey

Updated April 27, 2020 7:40 pm ET

—Rebecca Ballhaus contributed to this article

Trump Says He’s in No Rush to Give Money to States Short on Cash.

- **President says Democrats will need to make concessions**
- **States around the country suffer from revenue declines**

President Donald Trump said he is “in no rush” to provide federal assistance to states that are short of money because of the coronavirus, and said Democrats would have to make concessions if they want grants for state governments.

“If they do it, they’re going to have to give us a lot,” Trump said in a podcast interview with conservative commentator Dan Bongino that aired Friday.

The National Governors Association, chaired by Maryland Republican Governor Larry Hogan, has called on Congress to allocate an additional $500 billion in funding for state shortfalls.

Although the Coronavirus Aid, Relief, and Economic Security Act provides $150 billion for states and localities, those funds must be spent on virus relief only. The Federal Reserve announced it will start buying short-term municipal debt using its emergency lending programs, which has helped the market recover from the havoc wreaked by the virus.

The Brookings Institution estimates that at least $500 billion needs to be infused into state and local governments for them to continue providing services such as education, public safety, and health care.

House Speaker Nancy Pelosi has said states and localities are seeking about $1 trillion in assistance as part of the next stimulus bill.

Trump had previously signaled he was supportive of direct relief to states after a meeting last month with New York Governor Andrew Cuomo, who has estimated his state may have a budget shortfall of as much as $15 billion due to declining tax revenues.

But the president retreated from that stance after Senate Majority Leader Mitch McConnell labeled such funding a bailout for states run by Democrats and instead proposed allowing states to declare bankruptcy.

Trump has not explicitly endorsed the bankruptcy proposal, but has said he’s skeptical of providing assistance to states with longstanding budget issues. On Wednesday, McConnell said he would be “open” to considering state aid but said the next stimulus package would need to include federal liability protection for businesses that reopen following the coronavirus outbreak.

Fiscal challenges aren’t limited to blue states. Across the country, states are reeling from lost revenue: With 30 million people thrown out of work in the past several weeks, income tax collections are tanking, and sales taxes have evaporated after stores and restaurants shuttered. Most states receive a majority of their revenue from those two sources.

On Friday, White House press secretary Kayleigh McEnany said Trump doesn’t want financial assistance to states “to be an excuse for decades and decades of bad Democrat governance that have run these states into a financial predicament.”

She also reiterated comments Trump made previously that he’d demand an end to “sanctuary cities” — municipalities that prevent their police from cooperating with immigration authorities — as a bargaining chip for federal money.

“That is a negotiation item that the president will certainly bring up,” McEnany said.

Bloomberg

By Justin Sink and Jordan Fabian

May 1, 2020, 11:11 AM PDT Updated on May 1, 2020, 12:07 PM PDT

Trump Ties Virus Aid for States to Action on ‘Sanctuary’ Cities.

President Donald Trump indicated he wouldn’t allow federal aid for states facing budget deficits from the coronavirus outbreak unless they take action against “sanctuary cities” — municipalities that prevent their police from cooperating with immigration authorities.

“We would want certain things” as part of a deal with House Democrats to aid states, he said at a White House event on Tuesday, “including sanctuary city adjustments, because we have so many people in sanctuary cities.”

“What’s happening is people are being protected that shouldn’t be protected and a lot of bad things are happening with sanctuary cities,” he added.

Trump has long complained about the cities and has previously sought to cut off their federal funding unless they end the policies.

Democrats have said the next round of federal stimulus must include aid for states. But Senate Majority Leader Mitch McConnell, has indicating he’d be in favor of aiding states, but not helping those burden by pension obligations to bail out old debts. He said those states should be allowed to declare bankruptcy, which they can’t currently do.

Bloomberg Markets

By Jennifer Jacobs and Mario Parker

April 28, 2020, 1:26 PM PDT

With the Virus Spreading, Red States Will Need Bailouts, Too.

It’s not just Democratic states that are reeling from a sudden, dramatic loss of tax revenue.

On April 27, President Trump took to Twitter to escalate the spat over the next coronavirus stimulus, questioning whether the federal government should rescue “poorly run” states led by Democrats. His tweet echoed the comments of Senate Majority Leader Mitch McConnell, who suggested during a radio interview that states with large pension obligations under union contracts could pursue bankruptcy instead of federal aid. The Kentucky Republican’s office gave his comments a twist in a press release with a section titled “On Stopping Blue State Bailouts.”

It's true that many of the states that are ground zero for the Covid-19 pandemic—New York and New Jersey, as well as California and Illinois—are solidly Democratic. But the fiscal challenges that states now face aren't limited to the blue ones and go well beyond pension obligations. States across the country are reeling from a brutal double whammy of lost revenue: With 30 million people thrown out of work in the past several weeks, income tax collections are tanking, and sales taxes have evaporated after stores and restaurants shuttered. Most states receive a majority of their revenue from those two sources.

Continue reading.

Bloomberg Businessweek

by Danielle Moran

May 1, 2020

Pelosi Says States and Cities Seek $1 Trillion in Next Stimulus.

- **House vote on next bill depends on virus safety, speaker says**
- **Democrats also look to expand access to Internet broadband**

House Speaker Nancy Pelosi said Thursday states and cities alone are seeking as much as $1 trillion in aid in the next coronavirus relief package, a figure that may be tough to reach as Congress juggles demands to bolster the economy.

Pelosi said state governments are still finalizing their request but have so far sought $500 billion, while local governments have a similar figure. Lawmakers also are considering other proposals including another round of cash payments to taxpayers, expanded unemployment insurance, assistance to renters and wider broadband access.

"State and local, I talked about almost $1 trillion right there," Pelosi said at her weekly news conference. "We are not going to be able to cover all of it, but to the extent we can keep the states and localities sustainable, that is our goal."

With the economy stalled, the next coronavirus spending bill may end up being more costly than the $2.2 trillion package enacted last month. Democrats are also talking about another round of cash payments to individuals — something the White House says it is open to — and extending expanded unemployment benefits into the autumn. The rising price tag of coronavirus response has fueled objections from some conservatives and deficit watchdogs as the U.S. budget deficit for fiscal 2020 soars above $4 trillion.

House Minority Leader Kevin McCarthy indicated an openness to targeted state and local aid in the next bill in a press call Thursday. He said states should be required to open their accounting books and prove that expenses were virus-related to prevent them from using the money for other fiscal burdens, such as public employee pension obligations.

"It has to be for Covid," he said. "If you go and apply it to the states themselves and give the governors a lot of flexibility, they will use it to pay off other things and not help the cities and counties, the people who really need it."

Senate Majority Leader Mitch McConnell has previously outlined similar conditions on state aid. Pelosi in a separate interview on CNN Thursday said the aid should only be for revenue losses caused by the pandemic. “It has nothing to do with any other issue of the budget of any state,” she said.

Adding to the pressure on Republicans, the conservative group Americans for Prosperity Thursday sent a letter to all four top congressional leaders asking them to reject state “bailouts.”

“States that have spent lavishly, borrowed excessively, and ignored looming pension debt should not use the current crisis to shift the cost of those bad policy decisions onto taxpayers in other states,” said the letter by the group, part of the political network affiliated with libertarian billionaire Charles Koch. “Nor should they exploit firefighters, teachers, and other state workers to justify these bailouts.”

Democrats are discussing funneling local aid directly to municipalities through the Community Development Block Grant program and to make it available to cities with less than 10,000 people.

The speaker said she expects the House to consider the bill in the coming weeks but the exact timing is not clear.

“I can’t answer to the timing because we are at the mercy of the virus,” Pelosi told reporters. She said she expects the House to return to Washington during the week of May 11.

Senate Republicans haven’t yet said they would be willing to do another stimulus bill any time soon. McConnell said this week he is open to helping state and local governments with coronavirus expenses. But he’s said that any new bill must contain liability protections for businesses that reopen during the pandemic.

Democrats so far are resisting McConnell’s effort on liability. Pelosi said this week that “there isn’t any interest in having less protections for our workers.”

In contrast, House Democrats have talked about expanding federal safety regulations that businesses must follow to shield workers from the virus, as well as providing federal hazard pay for essential workers such as grocery clerks and meat packers.

House Majority Whip Jim Clyburn of South Carolina said at the news conference with Pelosi that Democrats want to make internet broadband more accessible and affordable in the next bill and that President Donald Trump has agreed to address the issue.

“The greatest thing for the 21st century will be having broadband in every house,” said Clyburn. Only 30% of the households in his district have an internet hookup, and that is forcing students to do their schoolwork in their parents’ cars in locations with wi-fi, he said.

“The only place they can do their homework is in the parking lot of the library,” Clyburn said.

Education, Housing

House Democrats also are weighing direct assistance for renters, big increases in education and public housing grants to localities, expanded Medicaid funding and a fund for voting by mail in the November elections.

Democrats’ focus on broadband, as well as access to clean water, may be an acknowledgment that a massive infrastructure package may not be possible in the next virus bill.

Republicans in both chambers aren't grabbing onto that proposal or one for a payroll tax cut, both leading goals for Trump.

McConnell said this week he sees the potential for a small infrastructure package at some point, but not in the next stimulus bill. He cited concerns about deficit spending, and said "there isn't a path" to getting a big package to rebuild roads and bridges.

"Infrastructure is unrelated from the coronavirus pandemic" and shouldn't be part of the next bill, he said on Fox News.

In the Senate, Democrats this week added more demands including a "Heroes Fund" that would offer up to $25,000 in hazard pay to hospital workers, grocery store clerks and others deemed essential to addressing the crisis.

Undocumented Immigrants

Senate Minority Leader Chuck Schumer and other Democrats want the next bill to extend work authorizations for certain undocumented immigrants in jobs deemed essential to addressing the coronavirus outbreak.

That includes 200,000 young undocumented immigrants who were protected from deportation by President Barack Obama's Deferred Action for Childhood Arrivals executive order, and another 130,000 immigrants in the U.S. under Temporary Protected Status.

Schumer said Treasury Secretary Steven Mnuchin told him Wednesday that Treasury will have a report Thursday on how many minority-owned small businesses are getting loans under the Paycheck Protection Act. Schumer said lawmakers are considering whether the next stimulus bill should address lending to those businesses.

Also, Schumer and almost every Senate Democrat this week introduced a plan that would require Trump to use the Defense Production Act to obtain materials for critical medical supplies, and to establish a supply chain and oversight of those efforts.

Concern About Deficit

The rising price tag of the next stimulus is rasing concern about the deficit among budget watchdogs, who say Congress must make the next bill more efficient and targeted than the last four virus bills.

"Borrowing is both inevitable and desirable because it is maybe what prevents us from going into a depression," said Marc Goldwein of the Committee for a Responsible Federal Budget, a non-partisan policy research group in Washington. "That doesn't mean that borrowing is free and we should borrow unlimited amounts. I'm not convinced that there is the evidence base that we should be spending another $3 trillion on top of the essential $4 trillion we are likely to borrow for this fiscal year."

Bloomberg Politics

By Erik Wasson, Billy House, and Laura Litvan

April 30, 2020, 8:53 AM PDT Updated on April 30, 2020, 3:01 PM PDT

Fed Wants States to Try Banks Before $500 Billion Credit Line.

- **Require certification that market can't meet funding needs**
- **Fed sees a backstop if there's no 'well-functioning market'**

The Federal Reserve is trying to ensure that states, cities and counties knock on Wall Street's door first.

The central bank's guidance about the details of its $500 billion municipal lending facility, released late Monday, says that states and local governments will need to provide a written certification that they'd tried to raise money elsewhere first. That may curtail its use because the municipal-bond market has largely stabilized since the Fed announced its planned intervention, allowing governments to issue more than $20 billion of debt over the last several weeks.

The provision is indicative of the cautious approach the Fed has taken since Congress extended it the power to wade for the first time into the $3.9 trillion municipal-securities market, where waves of panicked selling set off a liquidity crisis in March. The lending program promises to extend a lifeline to keep governments afloat if markets seize up again — and the mere prospect of the Fed's intervention was enough to pull the market out of its biggest rout in at least four decades.

But it's still uncertain how much it will be used. While the Fed significantly lowered its minimum population limits so it could lend to 87 cities and 140 counties, according to Census Bureau data, the requirement that governments try banks first will ensure that it's only used as a last resort. The loans will also be priced at a premium to market rates in "normal" conditions, potentially penalizing borrowers who draw from it.

Matt Fabian, a partner at Municipal Market Analytics, said the step ensures that governments continue to tap the public markets instead of queuing up at the Fed.

"It guarantees capital markets or commercial lenders an opportunity to provide a loan before the Fed ultimately funds it," Fabian said. "Which is good for the private markets and should return a sense of normalcy faster than otherwise."

Sales of short-term notes like those the Fed will buy — which governments use to cover expenses until tax collections come in — represent a fraction of the overall municipal market, with just $5 billion sold so far this year, according to data compiled by Bloomberg. But such borrowing is poised to increase as states push back their tax filing deadlines until July and the steep economic slowdown causes tens of billions of dollars in sales- and income-tax revenue to disappear.

It's unclear how well the public market could absorb borrowing on the scale that's needed, with prices still steadying from the biggest sell-off in at least four decades. Prices have slipped steadily since the middle of the month, giving back earlier gains, with 10-year yields rising 6 basis points to 1.35% Tuesday.

The pricing of the facility may also represent a way to restrain borrowing, though the Fed didn't detail how large a penalty it will charge, as required under federal law.

The pricing is the "million dollar question," said Emily Brock, director of the federal liaison center for the Government Finance Officers Association, a lobbying group.

Morgan Stanley strategists said in a note on Tuesday that they expect a "majority" of the Fed's municipal lending facility to be used. Still, the pricing could affect the usage of the facility if the penalties are too steep, strategists led by Michael Zezas.

The Fed's guidance said that issuers should look to the Fed if they can't obtain "adequate credit accommodation" from banks, a definition that includes "prices or on conditions that are inconsistent with a normal, well-functioning market."

"Obviously the definition of 'normal' will go a long way to determining how much the facility is used," Zezas said.

Already, the Fed's commitment to backstop the market has helped pushed down yields on the shortest-dated securities, which surged during last month's liquidity crisis. One-year AAA debt is yielding 0.8%, down from 2.8% in late March, according to Bloomberg BVAL benchmarks.

The Fed also extended its lending to the end of the year rather than the end of September, likely in response to concerns that governments might not know the extent of their cash needs for a while. The Fed also increased the eligible maturity date on the notes that it will purchase to three years instead of two.

The Fed made those changes after getting feedback from a variety of stakeholders, Brock said. She said the changes signal that the Fed "earnestly wants to make sure this is used."

Bloomberg Markets

By Amanda Albright

April 28, 2020, 10:29 AM PDT

[Fed Tells Municipalities to Seek Funding from Banks First.]

Before states and local governments turn to the Fed looking for a loan, the central bank wants them to first look to Wall Street.

"Each eligible issuer must also provide a written certification that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent," the Fed stated in guidance on what entities can apply for its $500B municipal facility.

Any of the 50 U.S. states, a city of more than 250K residents and a county with more than 500K residents can be eligible issuers under the facility.

Seeking Alpha

By: Liz Kiesche, SA News Editor

Apr. 28, 2020

[U.S. Fed Extends Help on Bond-Buying to Smaller Cities and Counties.]

WASHINGTON — The Federal Reserve on Monday broadened its help for local governments, offering to buy bonds of up to three years' duration from counties with as few as 500,000 residents and cities with as few as 250,000 residents.

The initial population size limits of 2 million for counties and 1 million for cities had restricted the Fed program to about two dozen of the largest local governments when it was announced earlier this month. That led to complaints, particularly among Democratic lawmakers, that institutions in the front line of the pandemic fight might, because of cratering tax revenues, be forced to choose between essential health services and basic services like police and fire protection.

The changes announced Monday mean the Fed is now willing to buy the municipal bonds of around 90 cities and over 100 counties, from California's Los Angeles County, with a population topping 10 million, to Glendale City, Arizona, population 250,702.

All state governments are also included.

The revised program will allow "substantially more" local governments access to Fed help "to help manage cash flow stresses caused by the coronavirus pandemic," the central bank announced. The Fed also said it was willing to buy slightly longer-term bonds, of three years' instead of two years' duration, and said it will leave the facility open until December instead of the planned September closing date and will allow some "multistate" entities to participate.

The Fed said it was considering extending the program to include local government entities that use revenue bonds, a form of financing used, for example, by local utility authorities that have a revenue stream.

The overall size of the Fed facility will remain at $500 billion.

By Reuters

April 27, 2020

(Reporting by Howard Schneider; Editing by Chris Reeseand Leslie Adler)

Federal Reserve Expands Lending to More Cities and Counties.

WASHINGTON (AP) — The Federal Reserve will allow a much larger number of cities and counties to participate in a lending program that it announced earlier this month.

The program initially allowed only 10 cities and 16 counties to participate. It then came under criticism for leaving out many large metropolitan areas with heavy African-American populations.

But the Fed said Monday that it will open the program to cities with 250,000 people, and counties with 500,000, down from 1 million and 2 million, respectively. The program will also provide three-year loans, up from the two-year loans it previously announced.

States and cities are facing a double hit from collapsing tax revenues as businesses shutter and 26 million people have sought unemployment aid. At the same time health care costs have skyrocketed because of the coronavirus.

As part of a set of lending programs that could provide as much as $2.3 trillion, the Fed said earlier this month that it would lend to all 50 states and 10 cities and 16 counties that met the initial population cut-offs.

The Fed's announcement helped bring down interest rates for all municipal borrowers, but one study by the Brookings Institution found that the 35 most heavily African-American cities were excluded from the Fed's direct lending, including Atlanta and Detroit. That's because those cities happened to have smaller core cities and bigger metro areas, but the Fed only looked at the city populations.

Rep. Maxine Waters, a Democrat from California who chairs the House panel that oversees the Fed, wrote Fed Chair Jerome Powell April 16 and urged him to expand the program.

The lower population figures have now made about 80 cities and more than 100 counties eligible, including New Orleans, Newark, New Jersey, Miami, and Minneapolis, as well as Atlanta and Detroit.

Democrats in the House and Senate are pushing for the federal government to provide more funding to the cities and states to cover their rising budget shortfalls. But that push has run into resistance from Sen. Mitch McConnell from Kentucky, the leader of the Republican majority.

The Fed's support for muni securities is only a partial solution, some economists say, because the states and cities are facing such a large fall in revenues that more lending will simply add to interest costs.

"They need the federal government to fill in a massive hole for them," said David Wilcox, a former Fed official and now a senior fellow at the Peterson Institute for International Economics. "That's not the business of a central bank."

Associated Press

by Christopher Rugaber

April 27, 2020

Fed Extends Municipal Liquidity Facility Beyond Largest Cities.

The Federal Reserve on Monday extended the scope of its liquidity facility concerning municipal debt to include slightly smaller U.S. counties and cities.

The program will now allow counties with a population of at least 500,000 residents and cities with a population of at least 250,000 to be eligible for selling their short-term debt directly to a special purpose vehicle established by the Fed and the U.S. Treasury.

When the facility was originally announced on April 9, the facility set the county threshold at two million residents and the city threshold at one million residents. Fed officials had been telling smaller counties and cities to seek funding at the state level, which is also eligible for the facility.

The facility will continue to support $500 billion of short-term notes through $35 billion of credit protection from the U.S. Treasury, appropriated from the Coronavirus Aid, Relief, and Economic Security Act (CARES) passed some weeks ago.

The new terms of its Municipal Liquidity Facility will also allow for the purchase of slightly longer notes. The original terms only allowed for debt up to 24-months, but the new terms will take on debt that matures up to 36 months.

Issuers will have to have at least an investment grade rating as of April 8.

Yahoo Finance

by Brian Cheung

April 27, 2020

[U.S. Muni Market Assesses Fed's Lifeline for Cash-Strapped States, Cities.]

CHICAGO — The Federal Reserve broadened the universe of states and local governments that can tap into a new $500 billion borrowing program for cash needed in the wake of the coronavirus outbreak, but certain newly disclosed requirements may shut some out, municipal market analysts said on Tuesday.

The U.S. central bank said on Monday it will buy bonds from counties with as few as 500,000 residents and cities with as few as 250,000 residents, an increase from its original plan that only targeted states and the largest local governments.

The $3.8 trillion muni market, where yields climbed on Tuesday as a concession to bigger supply, was digesting program details. The iShares National Muni Bond ETF also fell 0.4%.

With the flow of more federal money uncertain, cities, states and counties facing deep revenue losses from the economic fallout of shutdowns aimed at curbing the spread of the novel coronavirus may need to borrow to keep their governments operating.

The Fed offered a municipal liquidity facility as an alternative to flooding the muni market, which has been subject to recent bouts of unprecedented volatility, with cashflow debt issuances.

While the Fed extended the maturity of the loans to three years from two, it also released details on eligibility and pricing information that have caused a stir. One requires “written certification” that the government cannot “secure adequate credit accommodations from other banking institutions.”

“Clearly, the way it’s written will hamper participation,” said Mikhail Foux, head of municipal strategy at Barclays, adding that the program will “effectively be used as a backstop unless the language is changed.”

The language appears to allow consideration of abnormal pricing conditions in which borrowing costs or terms are “inconsistent with a normal, well-functioning market.”

Eligibility is also limited to governments with investment-grade credit ratings as of April 8.

Matt Fabian, a partner at Municipal Market Analytics, said the program will still be helpful to the muni market.

“By forcing governments to look to the traditional market first, it will restore the traditional market faster,” he said.

As for the cost of borrowing under the yet-to-be-launched program, the Fed said it will establish a pricing methodology based on an issuer's long-term rating and the maturity of its notes, plus a spread over an existing benchmark or index.

In addition, issuers must pay an origination fee equal to 10 basis points of the principal amount of the notes purchased under the program.

In triple-A-rated Virginia, lawmakers passed legislation allowing the state to tap the program for itself or local governments, according to state Treasurer Manju Ganeriwala, who said there were no immediate plans to do so.

She added that the program's pricing would have to be beneficial.

"If I could just get a better rate in the market, I would rather do that," she said.

Jennifer Sciortino, a spokeswoman for the New Jersey Treasurer's Office, said the state is awaiting more details on interest rates and loan terms, as well as for action by state lawmakers on emergency bond legislation that would allow for it to participate in the program.

By Reuters

April 28, 2020

(Reporting By Karen Pierog, editing by Alden Bentley and Sonya Hepinstall)

How the Fed's Expanded Support Can Help the Muni Market.

Analysts warn, however, that downgrades and negative outlooks could nevertheless increase.

The Federal Reserve has stepped in once again to help a part of the economy suffering from the coronavirus-fueled recession while it waits on more support from Congress.

It is expanding its $500 billion municipal liquidity facility (MLF) to include more cities and counties as well as multi-state entities.

U.S. counties with at least 500,000 residents and cities with a population of at least 250,000 residents will now be eligible for the Fed backstop. The comparable requirements were 2 million and 1 million residents previously, when the Fed first announced the MLF earlier in the month.

"The new population thresholds allow substantially more entities to borrow directly from the MLF than the initial plan announced on April 9," the Fed explained in a statement.

The facility was created to help states, cities and counties that cannot meet their financial needs through the capital markets because their spending rose sharply while their tax revenues fell substantially due to the COVID-19 pandemic.

"The Fed is effectively providing a guarantee on the ability for these issues to borrow," explained Matt Fabian, partner at Municipal Market Analytics, an independent research firm.

It will purchase eligible notes from municipal issuers that can prove they could not borrow in the capital markets without paying much higher interest rates than “normal” and can provide confirmation of that so long as they meet other requirements, said Fabian.

“It’s unclear to us how the Fed will determine ‘normal’ pricing,” wrote analysts at Morgan Stanley. The Fed said pricing guidance “will be forthcoming” and it is also considering extending the use of the lending facility to municipal entities that issue revenue bonds.

The municipal notes available for the Fed backstop include tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes from eligible issuers. They also must have a term no longer than 36 months, an increase from the 24-month limit the Fed originally announced, and must be rated investment grade as of April 8.

The expansion of the municipal liquidity facility “will help states and localities “get through immediate liquidity issues,” Fabian said.

Current liquidity in the muni market is thin but better than it was in late March and early April before the Fed announced its municipal lending facilities. But it could be tested as downgrades and negative outlooks increase.

In the last two months, Illinois, New Jersey, New York, Alaska, Connecticut, Hawaii and the New York Metropolitan Transportation Authority have been hit by downgrades or negative watches from the major rating agencies, and many more could follow as a result of the current economic downturn.

But even in the midst of the developments, there are opportunities for muni investors, says Fabian.

MTA bonds, which have been downgraded by major credit agencies to the equivalent of A or A-, are yielding 6% for a 10-year term. On a tax-equivalent basis that’s around 12% for New Yorkers in the highest bracket for federal, state and local taxes. Investors, however, “have to assume that debt will be downgraded to BBB, but that the MTA will survive the current crisis. You’re effectively betting it’s too big to fail,” said Fabian.

The agency has seen its ridership fall by over 90%, which has hurt revenues, leading the MTA to seek federal and state aid to help close a $8.5 billion budget deficit this year.

No matter what the municipal issue, advisors need to alert clients to the fact that municipal bond servicing is subordinate to local governments providing health and welfare services.

“Clients have to understand that there could be issues [with munis] that they haven’t had to deal with before,” Fabian said.

Morgan Stanley analysts said the Fed’s latest move was “an additional boost to high grade” muni bonds. The high-yield muni market, in contrast, will remain “weak for the foreseeable future,” according to the analysts.

They expect the municipal bond issuers will tap the majority of the $500 billion muni lending facility from the Fed, but the Fed could eventually provide even more support “if market conditions deteriorate further, at least until the broader economy is clearly healed.”

ThinkAdvisor

By Bernice Napach | April 28, 2020 at 05:45 PM

Fed to Extend Loans to More Cities, Counties.

Central bank widens eligibility for new local-government lending program, allowing more than 200 municipalities to participate

The Federal Reserve said Monday it would broaden the number of local governments from which it will buy debt through a forthcoming lending program.

The Fed will allow one borrower for each county of at least 500,000 people and city of at least 250,000, down from earlier cutoffs of 2 million and 1 million, respectively.

The central bank will also purchase debt with maturities of up to three years, instead of any earlier cap of two years.

The Fed will lend up to $500 billion through the facility, and the Treasury Department has provided $35 billion to cover any losses.

After announcing the program earlier this month, the central bank faced strong support from lawmakers and other elected officials to expand the number of municipalities that would be allowed to borrow. Lawmakers in both parties had chafed against the larger population cutoffs, with several saying it would improperly exclude American cities with large minority populations.

The Fed unveiled the program more than two weeks ago and initially limited participation to around 75 issuers—including all 50 states and the District of Columbia. The latest change will allow for as many as 261 state, city and county issuers to participate.

The central bank will require issuers to have been highly rated as of April 8, which is the day before the it announced the creation of the municipal lending program. That could pose a challenge for the city of Detroit, which is now large enough to qualify for the program but has a speculative-grade rating from Moody's Investors Service and S&P Global Ratings.

The program will also allow very highly-rated multi-state issuers, such as the Port Authority of New York and New Jersey, to sell debt through the program. The program, administered through the New York Fed, isn't open to U.S. territories.

The Fed said it is considering expanding the program to a limited number of governmental entities that issue bonds backed by their own revenues.

The market for municipal bonds has recovered significantly since freezing up midway through last month, but prices remain well below where they were at the beginning of March. Thirty-year AAA-rated bonds backed by state taxes yielded 2.13% Monday compared with 1.52% March 2, according to Refinitiv. Bond prices rise as yields fall.

Lobbyists for cities and towns as well as the banks and brokerages that trade municipal bonds have been pushing the Fed to expand its program so smaller communities can participate directly.

The Fed has long seen lending to states and cities as a political minefield. Fed officials worry they might end up holding municipal debts that borrowers can't repay. Left unanswered are questions such as what role the central bank would play in a bankruptcy and if it would support the borrower or line up with other creditors to get its money back.

The Wall Street Journal

By Nick Timiraos

Updated April 27, 2020 6:31 pm ET

—Heather Gillers contributed to this article.

Fed Expands Muni-Debt Program to Cover Smaller Cities, Counties.

- **Program adds multi-state issuers, 'fallen angel' provision**
- **Federal Reserve's new term sheet offers no new pricing details**

The Federal Reserve expanded the scope and duration of the Municipal Liquidity Facility, a $500 billion emergency lending program for state and local governments enduring the economic fallout from the coronavirus pandemic.

The U.S. central bank lowered the population thresholds under which counties and cities would be eligible to sell short-term debt to the facility. The new levels were at least 500,000 for counties and 250,000 for cities, down from 2 million and 1 million.

"That's fantastic," said Aaron Klein, a fellow at the Brookings Institution who was among critics of the program's original guidelines. The effort would now cover many of the nation's large cities that were previously excluded, he said, including Atlanta, Miami, Baltimore, Boston and New Orleans.

Klein and others had criticized the program's design for disproportionately excluding cities with large minority populations.

Record Sell-Off

The facility, which is not yet operational, is among nine programs announced by the Fed to limit the economic harm from the virus as businesses shutter to limit contagion. Its mere announcement on April 9 has helped municipal bonds recover from a record sell-off in March.

The rout caused borrowing costs for state and local governments to soar and billions of dollars in bond deals to be scuttled, raising concerns that municipalities would be unable able to raise money just as they shoulder the cost of fighting the pandemic.

Most recently, state and local debt has continued to struggle, with 30-year benchmark yields rising about 0.2 percentage points since April 20, according to Bloomberg BVAL.

"The broadening of the scope here might benefit market stability given the fragmented nature of munis," said Doug Benton, a senior municipal credit manager at Cavanal Hill Funds in Texas.

Wider Access

Lobbying groups like Government Finance Officers Association had asked the Fed to expand the scope of its short-term lending facility and offer access to a wider range of issuers, saying that some states may be reluctant to take on debt on behalf of smaller cities.

There are 87 cities that have populations above 250,000 as of 2018 and 140 counties that have populations above 500,000 as of 2019, according to Census Bureau statistics.

Guy LeBas, chief fixed income strategist at Janney Montgomery Scott LLC, said the expansion doesn't change the economics of the program. Smaller cities and counties could benefit from the funding under the original structure, but had to go hat in hand to their state governments. Under the new terms, they can sell debt directly to the facility.

Fallen Angels

The program was expanded to include certain multi-state entities. A new term sheet for the program also adds a so-called fallen angel provision, allowing some issuers whose credit ratings were downgraded after April 8 to qualify, provided they had been rated investment grade by two agencies as of that date.

The Fed said it was considering expanding the MLF to allow a limited number of governmental entities that issue bonds backed by their own revenue to participate directly in the facility.

The termination date for the program was also extended, to Dec. 31 from Sept. 30.

Earlier: Trump Questions Whether U.S. Should Aid 'Democrat' States

The statement offered no new information on how the Fed intended to price the securities it purchases under the program, repeating this would be based on the issuer's rating at the time of purchase "with details to be provided later."

Separately, the New York Fed said PFM Financial Advisors LLC was acting as the administrative agent for the MLF.

Bloomberg Markets

By Christopher Condon and Amanda Albright

April 27, 2020, 1:30 PM PDT Updated on April 27, 2020, 3:21 PM PDT

— With assistance by Steve Matthews, Danielle Moran, and Alexandre Tanzi

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Expansion of Federal Reserve's Municipal Liquidity Facility.

Economic Development News

On April 27, 2020, the Federal Reserve announced major changes to its Municipal Liquidity Facility (MLF) initiative. These changes were designed to expand and ease the eligibility requirements for governmental bodies to access much-needed, short-term funding through the MLF.

First announced on April 9, 2020, the MLF offers up to $500 billion in short-term loans to states and local governments to manage current cash flow stress and for other specified purposes. Loans under the MLF are made with funds provided by the Federal Reserve through a special purchase vehicle (SPV). The SPV, in turn, purchases short-term municipal securities – most commonly in the form of Tax Anticipation Notes (referred to commonly as "TANs"), Tax and Revenue Anticipation Notes (referred to commonly as "TRANs"), and Bond Anticipation Notes (referred to commonly as "BANs") – issued by eligible governmental bodies ("Eligible Notes").

Significant Changes in the New Announcement

Expansion of Eligible Governmental Borrowers

The most significant change in the new announcement is expansion of the number of eligible borrowers. Originally, only cities with more than 1 million residents and counties with more 2 million residents could apply. That resulted in just 20 potential borrowers. These thresholds were cut in half (i.e., cities with more than 500,000 residents and counties with more than 1 million residents) under the new announcement. Now, approximately 87 cities and 140 counties may qualify. It is noteworthy that the program does not prohibit a qualifying borrower from re-lending proceeds to smaller public bodies within its jurisdiction (e.g., a listed county obtaining a loan and re-lending the proceeds to cities and towns within its jurisdiction that do not meet the minimum population threshold).

A complete list of eligible cities and counties may be found here.

Investment-Grade Credit Rating

Previously, the Federal Reserve evaluated the creditworthiness of each potential borrower on a case-by-case basis. Under the new announcement, a borrower's creditworthiness is based on its long-term credit rating from at least two nationally recognized credit rating agencies (e.g., S&P Global Ratings, Moody's Investor Service, Inc. or Fitch Ratings, Inc.). Eligible borrowers must possess an "investment-grade" credit rating (i.e., BBB-/Baa3, or higher) as of April 8, 2020, from at least two of these credit rating agencies. For those that met this requirement but were subsequently downgraded, the threshold drops to BB-/Ba3. The Federal Reserve maintains final approval of the overall collateral securing repayment of the Eligible Note (e.g., general obligation, special tax pledge, utility revenue pledge).

Maturity Date

Previously, Eligible Notes had to mature within 24 months of issuance. The new announcement extends that maturity to 36 months.

Application and Closing Deadline

Under the new announcement, the deadline to apply for and close a loan has been extended from September 30, 2020, to December 31, 2020.

New Form of Eligible Issuer – Multi-State Entities

The updated MLF term sheet also includes "Multi-State Entity" within the list of eligible issuers. A Multi-State Entity is defined as "an entity that was created by compact between two or more States, which compact has been approved by the United States Congress[.]" Well-known interstate compacts include the Emergency Management Assistance Compact, the Multistate Tax Compact and the Southern Dairy Compact. To be eligible, Multi-State Entities must have been rated at least A-/A3 by two or more NRSROs as of April 8, 2020. If the Multi-State Entity is subsequently downgraded, it must be rated BBB-/Baa3 or higher by two or more credit rating agencies at the time of closing.

If you have questions or would like further information regarding how your community can access emergency funding through the Municipal Liquidity Facility, please contact Jim Murphy or Madison Haynes.

Bradley Arant Boult Cummings LLP – Jim Murphy and Madison Crooks Haynes

The Fed Goes Local: A Review of the Municipal Liquidity Facility - Milbank

The Board of Governors of the Federal Reserve System (the "Federal Reserve") has taken strong steps to support near-term liquidity in the nearly $4 trillion market for municipal bonds issued by states and local governments. The Federal Reserve's expansion of the Municipal Liquidity Facility (the "MLF") represents the most significant step so far by the Federal government to provide direct financial assistance to cash- strapped states, cities and counties facing a double hit from the COVID-19 pandemic: higher costs to deal with the public health crisis coupled with reduced or delayed revenues from taxes and fees.

More broadly, Congress and the President have enacted multiple emergency relief programs to address the impact of COVID-19 on public health and the economy in the United States.1 None of these legislative packages yet provide the massive financial assistance that state and local governments have sought. In the absence of such funding, given the reliance of state and local governments on debt raised in the tax-exempt municipal bond markets, the Federal Reserve has stepped in under its pre-existing statutory authority under Section 13(3) of the Federal Reserve Act to enable certain state and local governments to borrow directly from the Federal Reserve to bridge current funding shortfalls, subject to newly increased limits, for up to three years.2

On April 9, 2020, the Federal Reserve first announced the MLF, which we summarized in a Client Alert on April 10, 20203. The MLF represents a novel and meaningful attempt to stabilize the municipal bond market and is a clear indicator that the Federal Reserve understands the significance of the state and local sector to the overall economy. Traditionally, the Federal Reserve's programs to inject liquidity into the banking sector or the capital markets have not been used to support public issuers. Now, the Federal Reserve for the first time is providing widespread support to ensure the liquidity of and flow of credit to state and local governments as the economic effects of the COVID-19 crisis continue to deepen.

On April 27, 2020, the Federal Reserve announced an expansion of the scope and duration of the MLF. As detailed further below, this expansion substantially increased the number of eligible cities and counties and extended the maturity date of, and the termination date to purchase, Eligible Notes (as defined below). This expansion of the MLF additionally shows the Federal Reserve's expectation that increased measures are required to stabilize the municipal bond market and casts a considerably wider net geographically on the municipalities to which assistance can be provided. The changes also indicate a willingness to adapt the MLF as the COVID-19 situation unfolds and suggest a growing realization that, at a minimum, the liquidity problems of state and local municipalities will continue beyond Q3 at least to year-end 2020.

Below is a summary of the MLF based on the term sheet4 the ("Term Sheet"), initially effective as of April 9, 2020 as revised on April 27, 2020, issued by the Federal Reserve:

- The Federal Reserve has committed to provide support to States and the District of Columbia, cities with a population exceeding 250,000 residents (i.e., 86 cities) and counties with a population exceeding 500,00 residents (i.e., 119 counties);
  - Previously, the MLF allowed only cities with a population exceeding one million residents (i.e., 10 cities) and counties with a population exceeding two million residents (i.e., 14 counties).
- Such support will (i) come from a Federal Reserve Bank and its commitment to lend on a recourse basis to (ii) a special purpose vehicle ("SPV") that will purchase up to $500 billion5 of "Eligible Notes";
  - The Department of the Treasury will invest $35 billion in the SPV pursuant to funds appropriated

by the Coronavirus Aid, Relief, and Economic Security Act, which will likely take "first losses" in the SPV capital structure.
– While the Term Sheet speaks of an SPV in the singular, it does not identify which Federal Reserve Bank (or Banks) will provide funding to the SPV, leading to an assumption that municipalities will be grouped by the geographic reach of their local Reserve Bank.

- Eligible Notes consist of (i) tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), (ii) bond anticipation notes (BANs)6 and (iii) other similar short-term notes, set to mature no later than 36 months (extended from 24 months) from the date of issuance;
- Eligible Notes are *newly* issued by "Eligible Issuers" (*i.e.*, a state, city or county);
- Eligible Notes may be issued up to 20% of the general revenue of the applicable governmental entity for fiscal year 2017;
- Proceeds from Eligible Notes may be used to manage the effects of income tax filing deadline extensions, reductions of revenue and increases in expenses resulting from the COVID-19 pandemic and payment of principal and interest on the applicable governmental entity's obligations;
- Eligible Notes may be purchased until December 31, 2020 (extended from September 30, 2020).

The MLF is not designed to bail out insolvent or financially distressed issuers, apart from the impact of COVID-19. Eligible Issuers must meet minimum credit criteria based on at least two major nationally recognized statistical rating organizations (e.g., S&P Global Ratings, Moody's Investor Service, Inc. and Fitch Ratings, Inc.): (1) with respect to Multi-State Entities (i.e., an entity that was created by a compact between two or more states and approved by the United States Congress), ratings of at least A-/A3 as of April 8, 2020 and (2) with respect to entities that are not Multi-State Entities (i.e., a state, city or county), ratings of at least BBB-/Baa3 as of April 8, 2020; provided that if such Eligible Issuers are subsequently downgraded, ratings of at least BBB-/Baa3 and BB-/Ba3, respectively, at the time the SPV makes a purchase of Eligible Notes from such Eligible Issuers.

Though the Term Sheet provides a decent snapshot of the scope of the MLF, it also raises a number of questions that the Federal Reserve will need to provide additional clarification on:

- Though the Term Sheet has specified the criteria for Eligible Issuers, such Eligible Issuers are subject to approval by the Federal Reserve, and issuances of Eligible Notes are subject to review by the Federal Reserve. The Term Sheet requires legal opinions and disclosures prior to purchase of Eligible Notes, and the form and substance of such legal opinions and disclosures are currently unclear, only that they will be determined by the Federal Reserve. In short, two levels of approval appear to be necessary: (i) approval as an Eligible Issuer, and (ii) approval of the Eligible Note itself;
- Given the substance of such approvals have not yet been clearly delineated, the Federal Reserve will need to provide additional guidance, particularly in respect of the requirements for legal opinions and disclosures. Further, such approval is likely to be subject to interpretation by each Federal Reserve Bank, if applicable;
- In situations where both a city and the county can be Eligible Issuers (e.g., Los Angeles County and the City of Los Angeles), "double-dipping" in the issuance of Eligible Notes will likely be prohibited for both the city and the county. If the States and subdivisions cannot agree among themselves, the Federal Reserve may have to decide which entity is eligible.

It is unclear when the MLF will be activated and will begin purchasing Eligible Notes. It is possible that the MLF terms will be further updated based on public comment and related factors

Milbank LLP – Douglas Landy, Allan T. Marks and Albert Ji

[Federal Reserve Board Expands the Scope and Duration of the Municipal Liquidity Facility: McGuireWoods]

This alert updates and replaces an April 10, 2020, alert based on an April 27 Federal Reserve Board announcement that expanded the scope and duration of the Municipal Liquidity Facility (MLF). Any capitalized terms used in this alert and not otherwise defined herein have the meaning provided under the previous alert.

On April 27, the Federal Reserve Board announced an expansion of the scope and duration of the new Municipal Liquidity Facility (MLF) announced on April 9. The MLF provides up to $500 billion in lending to states and municipalities to help manage cash flow stresses caused by the COVID-19 pandemic. In addition to its announcement, the Federal Reserve also released a revised MLF term sheet and updated Frequently Asked Questions (FAQs) in response to ongoing inquiries relating to the MLF from potential Eligible Issuers and their representatives. The following is a summary of the pertinent changes to the MLF.

- The population thresholds for cities and counties to qualify as Eligible Issuers has decreased to (i) U.S. counties with a population of at least 500,000 residents and (ii) U.S. cities with a population of at least 250,000 residents. The decrease in the population thresholds for cities and counties enables substantially more cities and counties to borrow directly from the MLF than did the initial plan announced on April 9.
- The definition of Eligible Issuer has expanded to include Multi-State Entities. A Multi-State Entity is an entity created by a compact between two or more U.S. states, which compact has been approved by the U.S. Congress, acting pursuant to its power under the Compact Clause of the U.S. Constitution.
- Eligible Notes are permitted to have a term up to 36 months rather than the term of 24 months in the initial release.
  The termination date of the MLF was extended to Dec. 31, 2020, from Sept. 30, 2020, to provide Eligible Issuers more time and flexibility.
- Eligible Issuers that are states, cities or counties must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more nationally recognized statistical rating organizations (NRSROs). States, cities or counties rated at least BBB-/Baa3 as of April 8, 2020, but subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the MLF makes a purchase.
- Eligible Issuers that are Multi-State Entities must have been rated at least A-/A3 as of April 8, 2020, by two or more major NRSROs. Multi-State Entities rated at least A-/A3 as of April 8, 2020, but subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the MLF makes a purchase.
- Security for Eligible Notes will be subject to review and approval by the Federal Reserve. Specifically, Eligible Notes issued by states, cities or counties will generally be expected to represent general obligations of the Eligible Issuer, or be backed by tax or other specified government revenues of the applicable Eligible Issuer. If the Eligible Issuer is an authority, agency or other entity of a state, city or county, such Eligible 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 Eligible Note issued by such Eligible Issuer. If the Eligible Issuer is a Multi-State Entity, the Eligible Notes will be expected to be parity obligations of the existing debt secured by a senior lien on the Multi-State Entity's gross or net revenues.
- As provided in the FAQs, each Eligible Issuer must also provide a written certification that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent. Further information on required legal opinions and certificates will be determined and

publicly announced prior to commencement of the MLF.

In addition to the above modifications, the Federal Reserve is considering further expansion of the definition of Eligible Issuers to include a limited number of other governmental entities that provide essential public services on behalf of states, cities or counties that issue bonds backed by their own revenue. Any decision to include such additional Eligible Issuers would be publicly announced at a future date.

More guidance regarding the MLF is expected in the near future. McGuireWoods continues to monitor all new information released by the Department of Treasury and Federal Reserve.

McGuireWoods LLP – Lisa Medina Williams, Kay McNab, Arthur E. Anderson II, Douglas E. Lamb and David N. Gustin

April 29 2020

Federal Reserve Updates Key Features of the Municipal Liquidity Facility: MoFo

On April 27, 2020, the Board of Governors of the Federal Reserve System (**"FRB"**) amended the term sheet for its Municipal Liquidity Facility (**"MLF"**) to expand the scope and duration of the facility (the **"April 27 Update"**). Additional information regarding the MLF is also available in a set of Frequently Asked Questions published on the website of the Federal Reserve Bank of New York (**"FRBNY"**).

The MLF was approved by the FRB on April 8, 2020 as one of several actions authorized under Section 13(3) of the Federal Reserve Act to support the economy. Under the MLF, the FRBNY will commit to loan to a special purpose vehicle (**"SPV"**) on a recourse basis, which will then purchase up to $500 billion in Eligible Notes from Eligible Issuers. Eligible Notes will be purchased only at the time of issuance. The U.S. Department of the Treasury will make an initial equity investment of $35 billion in the SPV.

Previously, the FRB stated that the facility would stop purchasing Eligible Notes on September 30; the April 27 Update extends this to December 31, 2020. In addition, the April 27 Update reduces population requirements for city and county eligibility; adds Multi-State Entities (**"MSEs"**) as Eligible Issuers; and extends the permissible term for Eligible Notes. As updated, the MLF will have the following features:

- **Eligible Issuers** – Eligible Issuers include: all 50 states and the District of Columbia; cities with populations of at least 250,000; counties with populations of at least 500,000; and MSEs
- **Eligible Notes** – Eligible Notes include tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes, and other similar short-term notes
- **Eligible Use of Proceeds** – eligible use of proceeds includes addressing: cash flow impact of income tax deferrals resulting from an extension of income tax filing deadlines; deferrals or reductions in revenues or increases in expenses as a result of the pandemic; payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities
  – States, cities, and counties also may use proceeds to purchase similar notes issued by their political subdivisions and other governmental entities, or otherwise provide similar assistance, for

the purposes described above.

- **Maximum Maturity Date** – Eligible Notes must mature no later than 36 months from the date of issuance.
- **Impact of Credit Ratings**
  – Eligibility of States, Cities and Counties – must have been rated BBB-/Baa3 by two or more major nationally recognized statistical rating organizations ("NRSROs") as of April 8, 2020, and if subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the SPV makes a purchase
  – Eligibility of MSEs – must have been rated A-/A3 by two or more major NRSROs as of April 8, 2020, and if subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the SPV makes a purchase
  – Pricing – pricing to be based on rating at the time of purchase
- **Security** – The security for an Eligible Note is subject to review and approval by the Federal Reserve. As stated in the term sheet, the "source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer." The following are expectations for Eligible Notes of the respective types of issuers:
  – States, counties and cities – generally are expected to be general obligations or backed by tax or other specified governmental revenues
  – Authorities, agencies or other entities of states, cities or counties – must be guaranteed by, commit the credit of, or pledge revenues of, the respective state, city or county
  – MSEs – expected to be parity obligations of existing debt secured by a senior lien on the MSE's gross or net revenues
- **Limits** – The SPV may purchase Eligible Notes issued by or on behalf a state, city or county up to an aggregate amount of 20% of the general revenue from its own sources and utility revenue for FY 2017. For MSEs, the limit is 20% of gross revenue as reported in its audited financial statements for FY 2019.
- **Prepayment** – Prepayment, in whole or in part, is permitted at par at any time with the approval of the Federal Reserve.
- **Fees** – Origination fees are 10 bps of the principal amount of the notes.

Morrison & Foerster LLP

April 29 2020

McConnell's Reckless COVID-19 Bailout Claim on Pensions.

Senate Majority Leader Mitch McConnell's suggestion that states financially strapped by the pandemic should declare bankruptcy rather than receive federal aid would further devastate the national economy, destabilize the municipal bond markets and unfairly damage the retirements of government workers.

McConnell, R-Kentucky, says the federal government should not bail out governments of blue states like California because of the past fiscal mistakes they have made, most notably their poorly run public employee retirement promises.

"We're not interested in solving their pension problems for them," he told Fox News. "We're not interested in rescuing them from bad decisions they've made in the past, we're not going to let them take advantage of this pandemic to solve a lot of problems that they created themselves and bad decisions in the past."

On the surface, it's a politically appealing argument to McConnell's conservative base because state and local governments across the country have promised retirement benefits to government workers but failed to properly fund them.

California is one of the worst. The shortfall in its state and local government pensions works out to about $27,500 for every resident. The Golden State needs to clean up its pension mess.

But bankruptcy is not the answer — not for California or any other state. Certainly not now. McConnell's apparent attempt to leverage the coronavirus crisis for partisan purposes, by "stopping blue state bailouts," is mean-spirited and politically misguided.

While California ranks third in the nation in pension debt per state resident, red-state Alaska tops the list and half of the top 14 are red states or swing states, according to pensiontracker.org, run by Stanford's Institute for Economic Policy Research. Twelfth on the list is McConnell's home state of Kentucky.

By the way, if McConnell wants to even the ledger on federal subsidies, that's fine with us in California. As an Associated Press analysis found, "High-tax, traditionally Democratic states (blue), subsidize low-tax, traditionally Republican states (red) — in a big way."

Meanwhile, the most basic problem with McConnell's argument is that states cannot currently file for bankruptcy. That would require federal legislation, which itself would be constitutionally questionable because the U.S. Constitution's contracts clause prohibits state governments from "impairing the obligation of contracts."

But even assuming that it could be done, it would be horrible policy.

The federal government is trying desperately to shore up struggling businesses, large and small, to keep Americans working. Undermining state and local governments, which employ about 20 million people, or about 12% of the nation's workforce, and which have been devastated by declining tax revenues, would be counterproductive folly.

Then there's the effect on the markets. State and local governments issue bonds to fund capital projects. If they were forced into bankruptcy, it could send the $3.8 trillion muni market into a sell-off.

"It will be highly disruptive to the municipal bond market broadly and will result in significantly higher borrowing rates at a time when those costs are least absorbable," according to a BofA Global Research report reviewed by Reuters.

Finally, there are the pension plans that are the apparent target of McConnell's ire. He's right that state and local governments have promised more than they can afford, pushing retirement debt onto future generations of taxpayers. Yes, state and national pension laws should be rewritten to stop the abuses.

But destabilizing the ability of those local governments to fund those pensions would hurt taxpayers and, in some states, the workers and retirees who earned those benefits, leaving them with less money to spend to help shore up the economy.

Public employee pensions must be reformed. But pushing state and local governments over a fiscal cliff in the middle of a crisis is not the solution.

The San Jose Mercury News

May 3rd, 2020 | by The San Jose Mercury News editorial board

This is an editorial from The San Jose Mercury News.

The Municipal Bond Market is Facing Its Own Challenges Amid Pandemic.

The U.S. Federal Reserve came to the rescue with its quantitative easing program, propping up corporate and high yield bonds. The municipal bond market will face its own challenges as the economy pushes forward in a post-coronavirus world.

One case in point is the $900 million bond offering from the Metropolitan Transportation Authority.

"The new MTA deal will likely be a test case for one of the more severely impacted revenue bond issuers," said Jeffrey Lipton, Oppenheimer head of municipal research and strategy.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ on APRIL 30, 2020

Municipal Bond Perspective: Where We Go From Here.

Summary

- Given the financial strength of the sector, we believe airports have the requisite resources to weather a decline in air travel over the next several months.
- If investment markets do not recover from recent declines before fiscal year-end (mostly June 30), schools will see significant investment losses in fiscal year 2020.
- We expect that sales taxes and income taxes will experience immediate shocks as a result of social distancing and demand-side pressures.

As the COVID-19 pandemic evolved during the first quarter, the municipal bond market experienced one of its most volatile periods in years. Here, the Franklin Municipal Bond Department shares how they plan to navigate the market, which they think is likely to show signs of distress and elevated volatility for some time.

Since the second week of March, when a broad financial market selloff due to the global COVID-19 outbreak extended into the municipal market, many investors have asked for our outlook on the health of the overall muni market, as well as specific sectors and states.

In our view, the indiscriminate nature of the recent municipal market selloff has certainly created more attractive opportunities than at the start of the year. We also view recent actions by the Federal Reserve and Congress as favorable for the market.1

However, we also believe that the municipal market is still likely to show signs of distress and elevated volatility for some time. In addition, the longer the coronavirus weighs on economic activity, the more credit and default risk will come into play, albeit to varying degrees across different sectors and states.

While we would reiterate the view that it is still too early to predict the full impact of the outbreak, it is abundantly clear to us that certain sectors and states are much more likely to be negatively impacted than others. Our research analysts have been intensely reviewing municipal-market sectors and subsectors based on assessments of impact and resiliency as it relates to the coronavirus, including hospital, transportation, education, and water and sewer. A summary of these views is outlined in the following sections.

Hospitals

Hospitals continue to be on the frontline of the COVID-19 pandemic. As expected, we continue to learn of significant impacts to revenue, liquidity and volume to hospitals across the nation.

Many hospitals have already secured and drawn on lines of credit to deal with short-term liquidity pressures. Over the next 9-12 months, we anticipate widespread technical defaults, with liquidity and debt service coverage issues beginning as early as this month. We also see more widespread violations picking up around the end of June, which will trigger ratings declines for many issuers in the sector.

While we recognize that the operating environment is more likely to get worse before it eventually gets better, we currently do not anticipate monetary payment defaults given significant federal, state and Federal Emergency Management Agency support and the return of high contribution margin elective and outpatient procedures once social distancing measures are relaxed.

Water & Sewer

Bonds in the water and sewer sector are tied to essential services and are traditionally viewed as more being more defensive compared to bonds in many other revenue sectors. According to our analysis, balance sheets are strong as utilities have deleveraged since the last recession and debt service coverage levels currently provide a nice margin of safety.

In addition, our research shows the sector benefits from favorable liquidity dynamics, which have also improved since the last recession. In our view, management teams are nimble and remain well-equipped to manage through economic volatility. For example, many utilities, especially large entities, have implemented rate stabilization funds and/or developed residential assistance programs over time to alleviate rate pressure to qualified, low-income customers which should provide short-term flexibility.

Although the sector clearly ranks favorably based on our assessments, it is not without risks and there are several factors we will be monitoring closely:

- In the short term, we expect to see impacts to top-line operating revenues as commercial and industrial revenue streams are stressed and we may witness a deviation from historically strong billing and collections across the residential customer base.
- Political pressure to limit or freeze rate increases or implement short-term collection relief could pose challenges, especially areas of the country particularly hard hit by the spread of coronavirus.
- Depending on the length and severity of the current crisis, longer-term risks could include a lasting reduction in commercial and industrial accounts/revenues.

- It’s possible that we could also see an increased rate of deferred capital projects, thereby exposing utilities to larger capital outlays later on in time as assets reach, and potentially extend further beyond, their useful life.**Transportation**Recent events have obviously weighed on the transportation sector more so than others. Here, we highlight key themes we are seeing in the airport and toll road subsectors.

Airports

- The coronavirus is obviously wreaking havoc on air traffic at present, with travel restrictions eliminating most international flights and social distancing as well as shelter in place orders greatly reducing demand domestically. While this will continue to cause downward financial pressure on the airports in the near term, we believe many are well -positioned to weather a temporary downturn in air travel. Air travel prior to the coronavirus was at all-time highs and to the point where many airports were operating at capacity.
- Robust traffic trends over the last several years have allowed airports to bolster liquidity. In addition to strong cash positions, most airports also have ample reserves to draw upon if needed.
- Many of the management teams are very experienced and have been through 9/11, SARS, airline bankruptcies and the financial crisis. We expect them to curtail capital projects and cut operating costs until traffic normalizes.

Our short-term outlook for the sector is negative as the current downturn in traffic will cause financial stress to airport balance sheets, which will require many to rely on their cash positions to offset revenue losses. However, given the financial strength of the sector, we believe airports have the requisite resources to weather a decline in air travel over the next several months.

While there may be some downgrades of the weaker airports operating in more limited economies such as those that are largely tourism-based, we do not anticipate many defaults in the near term, if any.

Toll Roads

The coronavirus has had, and will continue to have, a significant impact on vehicle traffic, with most non-essential businesses closing and employees working from home as much as possible. Again, this will certainly cause downward financial pressure on the toll roads themselves in the near term, but we believe they can withstand a temporary downturn in traffic. The following are key points to consider for the sector:

- The strong national economy and low unemployment of the last several years have led to record traffic levels for most toll roads.
- Positive traffic trends combined with rate increases have resulted in excess cash flow and robust liquidity.
- In addition to excellent liquidity, toll roads typically have reserves to draw upon if needed.
- The transition to electronic tolling systems has also cut expenses, while advance refundings in this low interest-rate environment have dramatically reduced debt service expense.

For roads that are still under construction or that have major expansion projects underway, they too are likely to be affected by labor and material shortages due to the coronavirus that could cause significant delays. We would expect managed lanes, smaller roads and those less seasoned to be impacted more than larger, well-integrated systems. Yet again, public-private partnership structures typically hold very little cash (excess cash flow goes to the parent companies), so those are more likely to encounter liquidity issues. Just to reiterate, if the situation is prolonged and results in an extended recessionary environment, senior and subordinate debt structures will be of great importance in the event of bankruptcy filings.

Our short-term outlook for the broader sector is negative, but, once again, given the financial strength of many issuers in the space, we believe toll roads have the resources to withstand declines in traffic over the next several months. While there may be some downgrades of the smaller systems in more limited economies, as well as those that are largely tourism-based, we do not anticipate many defaults in the near term.

Higher Education

Education revenue bonds are issued to finance the improvement of facilities at public and private colleges. As the coronavirus has spread across the United States, most universities were very quick to act by closing campuses and fully transitioning to online classes.

Fortunately, most schools already offer online courses, and so this delivery format is not foreign. While we recognize the potential for short-term challenges, we generally believe that faculty and students will be able to adapt. Beyond this transition, several key themes stand out as we assess the impact and resiliency of the sector:

- We do not expect any schools to offer tuition refunds, as they all intend to finish teaching all classes this semester.
- Most schools have asked students to move out of the housing facilities, if possible, and many are offering to pro-rate room and board fees. Although such policies will have a negative impact on revenues, the final net effect could be less impactful as schools cut costs on food, personnel, utility and maintenance expenses.
- If investment markets do not recover from recent declines before fiscal year-end (mostly June 30), schools will see significant investment losses in fiscal year 2020. Although this technically won't have a direct impact on fiscal year 2020 operating income, we do expect balance sheet resources will decline, which would negatively affect liquidity and leverage.
- Some schools are more exposed to these risks than others, and credit research will be required to differentiate.
- For public schools, we expect that state appropriations will be pressured as states grapple with the fiscal fallout from COVID-19. Schools with a higher reliance on state appropriations will face more negative pressure. However, many schools have lessened their dependency on state appropriations since the last recession.

Against this backdrop, our main concern for the sector is fall 2020 enrollment, especially since we are in the middle of what traditionally constitutes the peak recruiting period for the fall 2020 semester. On-campus tours and in-person meetings have switched to virtual tours and online meetings. How and to what extent the coronavirus will affect the decision-making process for these prospective students is unknown at this point and something we will be monitoring very closely.

Impacts at the State Level

As a general matter, we expect the broad economic shutdown, the unprecedented loss of jobs and delayed tax filing deadlines will cause state and local governments to receive less revenue. Among other things, financial performance will depend on the economic makeup and overreliance on sensitive revenue streams that fund state and local governments. State and local government revenues often come from a mix of sales taxes, income taxes and/or property taxes, which can vary based on the level of government.

We expect that sales taxes and income taxes will experience immediate shocks as a result of social distancing and demand-side pressures. In many cases, states have delayed filing deadlines for income and, in some cases, sales taxes, which could also create cash flow issues for some borrowers. However, the combination of federal support and access to the Fed's Municipal Liquidity Facility (MLF) should help states deal with potential cash flow issues from revenue delays and/or reductions over the near term. Timing is also an important factor in that not all revenue streams will be impacted during the same fiscal year, allowing governments an opportunity to adjust budgets lower.

We have developed two proprietary multi-factor models to evaluate each state's ability to confront a crisis and address various macroeconomic challenges, whether it's driven by COVID-19, oil-market volatility or some other major economic shock. These models help us evaluate the financial preparedness of every state and identify state or local governments whose economies depend heavily on at-risk sectors like tourism, oil and gas, transportation and retail. We expect the use of reserves to be a primary tool for states over the short term. The models help us to identify those that have more flexibility than others (i.e., which states are better prepared to confront economic and financial challenges, particularly in the short term).

We assess the resiliency of state and local governments credit-by-credit, but there are some general themes to note:

- First, we are coming off a 10-year economic recovery, which has allowed most governments to rebuild reserves used in the recession.
- Second, the US government is providing $150 billion of direct stimulus to state and local governments, which should help ease the fiscal burden from COVID-19-related costs. In addition, the MLF should help to mitigate cash flow issues.
- Third, while we know revenues will decline, most governments have multiple tools to manage a situation like this. Strong leadership will be key.
- And fourth, each credit is different and revenue and economic diversity along with strong bond security will protect many.

The situation is obviously very fluid and, while it is subject to continued changes and developments, we would outline the following bull, base and bear case scenarios:

- In the bull case, we expect that most state and local governments will be able to make debt service payments. Some of the weaker governments could see ratings declines and potentially higher borrowing costs. Some of the weakest governments could tip over the edge into default/bankruptcy or require restructuring.
- In the baseline case, we still expect most state and local governments to weather the storm without much more than ratings declines. But we do think we could see more bankruptcy, default and/or restructuring activity.
- In a bear case, we expect the gap between outperformers and underperformers to widen. We expect more widespread ratings declines and increased potential for default and/or bankruptcy. Here, the challenge for governments with high fixed costs will become even more elevated. We also think that a prolonged closure could structurally change the economy, which could have longer-term effects on revenues. As an example, a permanent shift from brick-and-mortar shopping to online could hurt retail centers, a slowdown in the housing market could decrease property values, or reductions in gas taxes could result from more companies keeping employees at home to reduce costs.

In our view, some pockets of the state and local government sector will still present attractive opportunities in the bear case scenario. For example, states with strong reserves and strong leadership are more likely to balance reserve usage and spending cuts, which also improves their ability to lend support at the local level, further contributing to the economy and ultimately state taxes.

Meanwhile, there will still be weak performers in our bull case scenario. For example, credits highly concentrated in the at-risk economic sectors of tourism, oil and gas, transportation and retail will face significant challenges in any case scenario. Governments with very high fixed costs (e.g., debt, pensions, retiree health care) will have much less flexibility to effectively cut costs to match revenue declines.

We believe credit research will be critical, and no matter what scenario unfolds, we will continue to leverage our traditional analysis, qualitative insights and revenue estimates, to best position our portfolios.

Conclusion

We believe levels of municipal market volatility are likely to remain elevated over the next few months, and potentially longer. However, our seasoned team of analysts and portfolio managers have experienced difficult market periods in the past, and we are using that collective knowledge to navigate through this panic as well.

Drawing on our dedicated research team, we remain focused on issuers that we believe possess the ability to withstand prolonged declines in economic activity. We will also seek to leverage the flexibility provided across all of our municipal strategies to capitalize on the potential opportunities that market selloffs – particularly indiscriminate ones – can create.

What Are the Risks?

All investments involve risks, including possible loss of principal. All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest-rate movements, a municipal bond portfolio's yield and value will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the portfolio's value may decline. Investments in lower-rated bonds include higher risk of default and loss of principal. 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.

1 On March 27, Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Thanks to the relief bill, the Fed now has the ability to purchase corporate and municipal bonds with maturities longer than six months in the amount of $454 billion, an amount which could increase over time.

Franklin Templeton Investments

Apr. 28, 2020

BBN: Taxable Munis Look Attractive At A Discount

Summary

- I turned cautious on BBN when its market price hit par with the underlying value. Now, the fund trades at a 5% discount to NAV.

- Taxable munis continue to see demand from institutions, such as banks, and also foreign investors.
- The economic slowdown resulting from the COVID-19 pandemic will challenge state and local governments. However, many governments had seen revenues increase leading in to this crisis.

Main Thesis

The purpose of this article is to evaluate the BlackRock Taxable Municipal Bond Trust (BBN) as an investment option at its current market price. While munis have come under a bit of pressure over the past week, I still believe the fundamental outlook is solid enough to warrant positions. A primary concern is the financial position of state and local governments, as the COVID-19 crisis has had a dramatic impact on government revenues. However, tax revenues have been increasing consistently, on the local level, over the past decade. This puts many municipalities in a reasonable position to withstand the current headwinds. Further, support from both the Federal Reserve and Congress to assist state and local governments during this time should prevent any wave of defaults hitting the muni sector. Finally, BBN in particular is a solid way to play the taxable sector. The fund has a marked discount to NAV, and continues to benefit from demand outside retail American investors, including large corporations and non-US investors.

Continue reading.

Seeking Alpha

Apr. 27, 2020

GASB Issues Guidance on Accounting for P3s.

Norwalk, CT, April 20, 2020 — The Governmental Accounting Standards Board (GASB) has issued new guidance to improve accounting and financial reporting for public-private and public-public partnership arrangements (commonly referred to as P3s) and availability payment arrangements (APAs).

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, provides guidance for P3 arrangements, including those that are outside of the scope of the GASB's existing literature for those transactions—namely Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, and Statement No. 87, Leases. The Statement also makes certain improvements to the guidance previously included in Statement 60 and provides accounting and financial reporting guidance for APAs.

P3s

Statement 94 defines a P3 as an arrangement in which a government transferor contracts with a governmental or nongovernmental operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset—the underlying P3 asset—for a period of time in an exchange or exchange-like transaction.

Some P3s meet the definition of a service concession arrangement (SCA). The Statement carries forward the financial reporting requirements for SCAs that were included in Statement 60, with modifications to apply the more extensive requirements related to recognition and measurement of leases to SCAs.

P3s that meet the definition of a lease should apply the guidance in Statement 87, if existing assets of the transferor that are not required to be improved by the operator as part of the P3 arrangement are the only underlying P3 assets and the P3s do not meet the definition of an SCA.

This Statement provides specific guidance for all other P3s from the perspective of both a government that transfers rights to another party and governmental operators that receive those rights.

APAs

Statement 94 defines an APA as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The Statement requires governments to account for APAs related to those activities and in which ownership of the asset transfers by the end of the contract as a financed purchase of the underlying infrastructure or other nonfinancial asset. It also requires a government to report an APA that is related to operating or maintaining a nonfinancial asset as an outflow of resources (for example, expense) in the period to which payments relate.

The Statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. In light of the ongoing COVID-19 pandemic and the Board's newly added project to consider postponing the effective dates of certain pronouncements, the Board extended the effective date for Statement 94 by one year from the date proposed in the Exposure Draft.

GASB Provides Guidance to Assist Stakeholders with Implementing Its Pronouncements.

Norwalk, CT, April 23, 2020 — The Governmental Accounting Standards Board (GASB) today issued implementation guidance containing questions and answers intended to clarify, explain, or elaborate on the implementation and application of certain GASB pronouncements.

Implementation Guide 2020-1, *Implementation Guidance Update—2020*, addresses new questions about application of the Board's standards on multiple topics, including but not limited to:

- The financial reporting entity
- Fiduciary activities
- Leases
- Conduit debt obligations
- Asset retirement obligations, and
- External investment pools.

Implementation Guide 2020-1 also includes amendments to previously issued implementation guidance. In addition, it delays the effective date of certain questions and answers that were originally published in Implementation Guide No. 2019-2, *Fiduciary Activities*, pending the completion of the GASB's project on Certain Component Unit Criteria and Accounting and Financial Reporting for Section 457 Plans.

The requirements of Implementation Guide 2020-1 are primarily effective for reporting periods beginning after either June 15, 2021 or December 15, 2021. Those effective dates are one year later than is typical for an Implementation Guidance Update, consistent with the GASB's proposed Statement, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Early application is encouraged for guidance related to standards that already have been implemented. Please see the guide's Effective Date and Transition section for additional details.

Oil Price Drop Brings Risk to Energy-Dependent Munis (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses Senator McConnell advocating state bankruptcy and risks to energy-dependent states. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg Radio

April 24, 2020

How U.S. Public Transit Can Survive Coronavirus.

Subway and bus systems in the U.S. face financial peril as ridership collapses due to lockdowns. To keep transit alive, here's a playbook for immediate and long-term fixes.

Public transportation has been in a state of crisis since the coronavirus pandemic began. Ridership in major cities in the U.S., Europe and China is down by 50-90% from pre-crisis levels. Local taxes used to subsidize systems in America, such as sales taxes, have taken a big hit as well. Transit operators are running out of money quickly. While the federal government has allocated $25 billion in emergency aid to help cover operational losses, the next six months will still present an enormous financial challenge to local agencies as they struggle to attract riders back onto buses and subways and continue capital projects.

As urban research scholars specializing in public transit costs, we worry that this dynamic could result in damaging decision-making. Historically, it has been during times of crisis that agencies have deferred maintenance, cut service and canceled expansion projects. It's these choices, made under extreme duress, that have crippled American transit agencies before.

But there is a way forward. We offer these pathways for saving transit, immediately and into the future.

Continue reading.

CITY LAB

by ALON LEVY & ERIC GOLDWYN

APRIL 24, 2020

[School Facilities Implications for COVID-19 Response: Orrick]

When the current wave of cases has subsided, social distancing measures will relax and, eventually schools will reopen. There is no guarantee or even strong likelihood that an effective treatment, prophylaxis, or vaccine will be available or widely deployed at that point. Schools will reopen with the strong possibility of subsequent waves of infection as strong or stronger than the wave we are currently experiencing. Schools will continue to play an active role in the public health fight against such subsequent waves by developing and implementing social distancing protocols and effective protocols for responding to infections in the school community. These ongoing public health requirements have implications for the school district's facilities. This article tries to anticipate some of those implications and to note where available bond dollars could be put to use.

Read more.

Orrick Public Finance Alert | April.23.2020

Getting Familiar with Education Sector Municipal Debt.

Believe it or not, schools are the second-largest public infrastructure investment in America behind transportation. For investors, getting familiar with education-sector municipal debt is crucial for understanding this massive segment of the market.

Colleges and universities rely on municipal debt for capital improvement programs, such as expanding campus facilities, at a time when post-secondary enrollment is beginning to decline. Demographic trends suggest this pattern will continue due to lower birth rates and the skyrocketing costs of post-secondary education.

Let's take a look at the current status of the education sector of the municipal debt market and explore the opportunities and challenges the sector presents for investors.

Continue reading.

municipalbonds.com

by Sam Bourgi

Apr 22, 2020

Fitch Updates Coronavirus Scenarios for U.S. Airports Portfolio.

Fitch Ratings-New York-21 April 2020: Fitch Ratings has developed revised coronavirus rating and sensitivity scenarios for U.S. airports to reflect airline decisions and the greater reductions being experienced in passenger traffic, in the order of 90% or higher across most U.S. airports. These scenarios incorporate the increased concern that impact on air travel from this health crisis will be deeper and more prolonged, and combined with the resulting effects on the underlying economy will cause a less robust recovery that may extend beyond 2022, according to Fitch Ratings.

The coronavirus has already resulted in sharp economic contractions both in the U.S. and globally, affecting demand for air travel at a rate never seen in past shock events such as pandemic outbreaks or terrorist attacks. Airlines ranging from global network carriers to those concentrated on domestic-focused routes have taken most flights out of service. This action will last at least through the full 2Q20 and likely for most of the 2H20 as well. Even with early discussions underway to have limited reopenings of the national or local-level economies, return of a more normalized air travel environment remains unclear.

Both the airports and air carriers have received varying levels of financial assistance from the federal government in the magnitude of tens of billions of dollars. These funds provide near-term protections to address massive revenue losses for both sectors. However this liquidity infusion is not going to support longer term needs should the pandemic result in a persistent severe global recession.

Key Assumptions
As a result of the negative environment facing airports, Fitch has revised its key enplaned passenger assumptions into three new cases as compared to two initial coronavirus scenarios published in the Non-Rating Action Commentary released on March 23, 2020 (http://www.fitchratings.com/site/pr/10115357). The three cases are labelled as the Coronavirus Rating Case, Coronavirus Sensitivity Case and the Coronavirus Severe Sensitivity Case. The differences for each case focus on the severity of the 2020 traffic reduction when compared to base year 2019 as well as the level of initial recovery in 2021 through the next several years. Recognizing there are different fiscal year periods for each airport, the assumed traffic levels will be accordingly adjusted.

Rating Case
–For calendar year 2020 Fitch assumes an overall enplanement decline of approximately 50% relative to 2019 actual levels based on the following assumptions of quarterly traffic activity starting in the 2Q period: 2Q20 (-90%); 3Q20 (-60%) and 4Q20 (-30%);
–For calendar years 2021 and 2022, Fitch assumes recoveries to -15% and -5%, respectively, relative to 2019 levels;
–Following 2022, Fitch assumes 100% traffic recovery followed by a moderate level of continued traffic growth of 2% per annum

Sensitivity Case
–For calendar year 2020 Fitch assumes an overall enplanement decline of approximately 60% relative to
2019 actual levels based on a one-quarter delay in the initial recovery process as reflected in the following assumptions: 2Q20 (-90%); 3Q20 (-75%) and 4Q20 (-60%);
–For calendar years 2021 and 2022, Fitch assumes recoveries to -20% and -5%, respectively, relative to
2019 levels;
–Following 2022, Fitch assumes 100% traffic recovery followed by a moderate level of continued traffic
growth of 2% per annum.

Severe Sensitivity Case
–For calendar years 2020 and 2021, Fitch assumes the same degree of enplanement declines and initial
recovery as the Sensitivity Case above; however, the timeline to a full recovery to 2019 levels is only reached by 2024;
–For calendar years 2022 and 2023, Fitch assumes a 4% annual growth in enplanements relative to

the
prior year;
–For calendar year 2024, Fitch assumes 100% traffic recovery to 2019 levels followed by a moderate level of continued traffic growth of 2% per annum.

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Additional information is available on www.fitchratings.com

S&P Credit FAQ: A Review Of Transportation Criteria: Liquidity And Debt Service Coverage In Light Of COVID-19

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Frequently Asked Questions

The virtual collapse of demand levels for many transportation infrastructure providers as a result of the COVID-19 pandemic is focusing attention on their liquidity, reserves, financial flexibility, and projected financial performance. As we evaluate the magnitude and impact of these severe volume declines on issuers in the context of a global recession, key metrics outlined in our criteria and other financial flexibility measures provide a critical, forward-looking view of how long the enterprise can operate while meeting near- and longer-term financial obligations. Importantly, understanding these measures of liquidity, including how we view unrestricted versus restricted assets, days' cash on hand, cash burn rates, and debt service coverage (DSC), as well other adjustments, provides the market with uniform benchmarks to allow comparative analysis at a time when management teams are proactively using all available tools to meet their obligations.

In this commentary, we review these key metrics and their significance to our assessment of overall credit quality, addressing how external support or liquidity injections, such as federal grants from the CARES Act made available to airport and transit operators, will be incorporated into our analysis, and examining how other cash flow analysis can be useful in the coming months.

Continue reading.

S&P: 18 Utility Rating Outlooks Revised To Stable From Positive Due To Pandemic, Recession Uncertainty

NEW YORK (S&P Global Ratings) April 23, 2020–S&P Global Ratings revised its outlook to stable from positive and affirmed its various long-term ratings on 18 public utility credits (see table below).

“The outlook revisions have been predicated on a combination of factors, including uncertainty surrounding the local service area economy in light of the recession,” said S&P Global Ratings credit analyst Edward McGlade. While these outlook revisions apply to credits that previously carried positive outlooks, they correspond with the negative outlook revision we took on the entire Public Utilities Sector on April 1, 2020, which highlighted the sector’s vulnerability to the potential negative economic effects presented by the COVID-19 pandemic.

We consider increased pressures on the service area economies and each utility’s financial profile due to social distancing measures and persistent fears of the spread of the COVID-19 virus, as a social factor under our environmental, social and governance (ESG) factor assessment.

Continue reading.

S&P: Tourism-Dependent U.S. States Could Face Credit Pressure From COVID-19's Outsized Effects On The Industry

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Key Takeaways

- With most of the U.S. under COVID-19 containment guidelines, tourism–both domestic and international–is one of the hardest-hit economic sectors.
- States most dependent on tourism are likely see credit pressures due to loss of revenue, spikes in unemployment, and reduced economic activity and may face a significant lag during the recovery.
- We consider Nevada and Hawaii to be the most severely affected states based on tourism’s share of their economies.

Continue reading.

[Fed to Name Participants in Cares Act-Backed Loan Programs.]

- **Details will be published every 30 days on the Fed's website**
- **Congress had been pressing central bank to share more details**

The Federal Reserve will disclose the names of borrowers from several of its emergency lending facilities backed by U.S. taxpayer money from the $2.2 trillion coronavirus rescue bill, following congressional pressure for transparency.

The Fed said on Thursday that it will publish the names and details of participants in its facilities set up in the CARES Act, as well as the amounts that were borrowed and the interest rate charged on its website at least every 30 days. It will also report the overall costs, revenues and fees of each of the facilities.

"The Federal Reserve is committed to transparency and accountability by providing the public and Congress detailed information about our actions to support the economy during this difficult time," Chairman Jerome Powell said in a statement.

The central bank won't immediately disclose borrowers in three programs linked to short-term funding programs instituted before the Cares Act to help stem the economic crisis from the outbreak.

Lawmakers from both parties had been pressing the Fed to spell out which companies were getting assistance, in an effort to make sure that taxpayer money was going where it was intended. There has also been growing public frustration that small businesses had been beaten to funds by bigger companies with better access to banks and lawyers. Congress is debating another multi-billion dollar spending package to re-start that program, which is not being run by the Fed.

'Significant Victory'

"This is a significant victory for the public," tweeted Bharat Ramamurti, a member of the Congressional watchdog appointed to scrutinize implementation of the Fed and Treasury's virus-relief work. "We will need to look carefully at the first report to see if other information is needed but this is a very good step."

As part of the Cares Act signed into law late last month, the Fed established programs aimed at lending to small and mid-size businesses, states and municipalities. Several of those six facilities are not yet up and running.

It will not apply the same disclosure terms to the three Fed facilities launched prior to the passage of the Cares Act — the Primary Dealer Credit Facility, the Money Market Mutual Fund Liquidity Facility and the Commercial Paper Funding Facility — which collectively have lent out more than $80 billion as of April 22, the latest date for which data is available.

Congress appropriated $454 billion in the Cares Act to support lending efforts by the central bank that can be leveraged into trillions of dollars of credit. The Fed is setting up its emergency programs under Section 13-3 of the Federal Reserve Act, which outlines rules for disclosure of loan details to Congress.

Stigma Risk

The Fed did not disclose individual borrower details in its facilities following the 2008 financial crisis until it was forced to do so by the courts after a lawsuit brought by Bloomberg LP, the owner of

Bloomberg News. Its reluctance to make such information public stems from the concern that it may incite market panic or disincentivize borrowers from taking advantage of the programs for fear of resulting stigma.

“If the threshold for them is that they won’t take the money if people know they took the money, then it seems like they don’t need the money,” Marcus Stanley, policy director of Americans for Financial Reform, said before the Fed’s announcement.

The PDCF loans to U.S. government bond dealers. The MMMLF is working with banks to help money funds meet redemption demands. The CPFF is directly financing the short-term IOUs of U.S. corporations. The Fed regards the markets around these programs as systemically critical to financial stability.

Powell will request confidentiality for those three when he submits information to Congress and the Fed will eventually disclose borrowers when the programs close, according to the Fed.

The Fed is still working on disclosure policies for the Term Asset-Backed Securities Loan Facility, designed to assist the flow of credit to consumers and the Paycheck Protection Program Lending Facility, which supports loans to small businesses to encourage them to keep workers on the payroll.

On the Main Street lending facilities, aimed at firms with 10,000 employers or less, the Fed will disclose both borrowers and bank intermediaries. The same approach will hold for the TALF if the Fed chooses immediate disclosure.

Bloomberg Markets

By Catarina Saraiva and Craig Torres

April 23, 2020, 11:30 AM PDT Updated on April 23, 2020, 2:35 PM PDT

— With assistance by Saleha Mohsin

Developing Public Finance Concerns in the COVID-19 Era.

INTRODUCTION

The COVID-19 global pandemic presents unprecedented financial, operational and other challenges for participants in the public finance industry. The situation is extremely fluid and new developments occur almost daily. The response by local governments, lenders, borrowers, trustees and underwriters to the unique issues that they will face will have to be tailored to specific circumstances and incorporate “best practices” as they arise. This alert will touch upon three primary areas of impact identified in this early phase of the pandemic. This alert does not address certain Federal relief programs that are available to 501(c)(3) entities.

- Selected Federal tax issues
- Selected covenant compliance issues
- Selected disclosure issues, including continuing disclosure obligations

SELECTED FEDERAL TAX ISSUES

Financing Vehicles to Address Cash Flow Deficits and Working Capital Needs

A loss of expected revenue, such as sales taxes and other taxes or assessments in the case of municipalities and other local governments, or operational revenues, in the case of 501(c)(3) conduit borrowers, can result in shortfalls in budgets. Certain financing vehicles provide tools to address these shortfalls on a tax-exempt basis.

Cash Flow Deficit Financings. Federal tax law has long permitted the issuance of tax-exempt tax or revenue anticipation notes, generally on a short-term basis, to finance a cumulative cash flow deficit. These obligations are sized taking into account, on a monthly basis, the available amounts of revenues, the anticipated expenses and a permitted working capital reserve that results in a cumulative cash flow deficit. The term is typically limited to 13 months and certain rebate accounting can be avoided by sizing the obligations to cover a deficit that occurs within six months of the date of issuance of the obligations.

Extraordinary Working Capital Financings. Federal tax law also permits the financing of certain extraordinary working capital expenditures without regard to a cash flow deficit. These are expenditures for extraordinary, nonrecurring items that are not customarily payable from current revenues, such as casualty losses or extraordinary legal judgments in amounts in excess of reasonable insurance coverage. The scope of "extraordinary" in the context of the COVID-19 pandemic is not clear. In particular, because the definition focuses on expenditures, it is not certain whether an unexpected loss of revenue will meet this provision. Guidance from the Internal Revenue Service (IRS) on the scope of the extraordinary working capital definition is being sought by the National Association of Bond Lawyers (NABL).

Prior to 2016 there was no stated term limit for extraordinary working capital obligations; the term is now also limited to 13 months. These extraordinary expenditures can also be the subject of a reimbursement borrowing, where proceeds of the obligations are used to reimburse the issuer for expenditures made before the date of issuance of the obligations. Generally, the issuer must adopt a reimbursement resolution within 60 days of the expenditure being made to have a valid reimbursement.

Beginning in 2016, IRS permitted by regulations the issuance of long-term working capital obligations, including extraordinary working capital borrowings. The 2016 rules require the issuer (i) on the issue date to determine the first fiscal year following the 13 month period after date of issue in which it reasonably expects to have available amounts (the "first testing year"), which must be within 5 years of the date of issuance; (ii)beginning in the first testing year and each fiscal year thereafter, to determine the available amount as of the first day of each fiscal year; and(iii) within 90 days of the start of each fiscal year, to apply that amount (or if less, the available amount on the date of the required redemption or investment) to redeem and/or invest in "eligible tax-exempt bonds," up to the amount of the outstanding working capital bonds. These rules effectively require the bond documents to include a provision requiring a call or mandatory partial prepayment from surplus revenues, unless the issuer can acquire certain outstanding bonds.

Forbearance and Reissuance Matters

Issuers and conduit borrowers of outstanding tax-exempt obligations who face financial pressures as a result of the COVID-19 pandemic may consider seeking assistance from their lenders in the form of forbearance or restructuring of their outstanding obligations. While lenders may be amenable to making certain changes, the parties to these obligations should keep in mind that modifications may cause the obligations to be treated as reissued for federal tax purposes. Unless appropriate steps are taken, the reissuance can result in an outstanding obligation being deemed a new taxable obligation under Section 1001 of the Internal Revenue Code. Reissuance can also have gain or loss implications for the lenders.

When Does a Forbearance or Other Loan Modification Trigger Reissuance for Tax Purposes? The tax regulations under Section 1001 look to whether there has been a modification of one or more terms of a debt instrument and whether that modification is significant. The general rule for significant modification under the regulations is not particularly helpful; it provides that a modification is a significant modification only if, based on all facts and circumstances, the legal rights or obligations that are altered and the degree to which they are altered is economically significant. Fortunately, the regulations provide safe harbors for certain types of modifications.

Absent a change in another term of the debt instrument, a temporary forbearance by the lender, i.e., an agreement to stay collection or temporarily waive an acceleration clause or similar default right, is not a modification that triggers reissuance unless and until the forbearance remains in effect for a period that exceeds (i) two years after the issuer's initial failure to perform and (ii) any additional period during which the parties conduct good faith negotiations or during which the issuer is in a title 11 bankruptcy or similar case. If the negotiations result in a change in terms of the instrument, a reissuance analysis of that change is required.

If a change in interest rate results in a change in the annual yield of a tax-exempt bond by more than the greater of ¼ of one percent or 5% of the annual yield of the unmodified instrument, there will be a reissuance.

A change in the timing of payments under a debt instrument is significant if it results in a material deferral, taking into account the length of the deferral, the original term, and the amount of the payments. The regulations provide a safe harbor deferral period, beginning on the original due date of the first scheduled payment that is deferred and extending for a period equal to the lesser of 5 years or 50% of the original term of the debt instrument. A deferral that fits within this safe harbor does not trigger a reissuance.

In addition, a modification that adds, deletes or alters customary accounting or financial covenants is not treated as a significant modification that triggers a reissuance. The substitution of new collateral for existing collateral of a tax-exempt bond may cause a reissuance, if it changes payment expectations. A change in payment expectations may occur if there is a substantial enhancement or substantial impairment of an issuer's capacity to meet its payment obligations.

Other Considerations. The regulations under Section 1001 should be consulted when addressing any proposed modification of the term of tax-exempt obligations. Because a reissuance is treated as an exchange of one debt instrument for another, it may be possible to maintain the tax-exemption of reissued debt as a current refunding of the original debt, by meeting all the requirements imposed by the Internal Revenue Code for refunding bonds. At a minimum, the issuer will need to file a new Form 8038 for the reissued bonds. In the case of conduit bonds, this will require that the actual issuer be involved in the transaction. An agreement to modify a debt instrument between just the conduit borrower and the lender/bondholder may result in the new debt instrument being taxable because it is not treated as issued by a state or local government.

SELECTED COVENANT COMPLIANCE ISSUES

If an issuer or conduit borrower experiences cash flow or other operational issues as a result of the COVID-19 pandemic, the impact can be expected to ripple through to its debt obligations. The effect on each party will be specific to the terms of any particular transaction, including the type of security granted, the financial covenants and other tests that must be met, and how an event of default is triggered. The following highlights certain issues that may arise.

Covenant Compliance. Issuers and conduit borrowers should be familiar with all the financial and other covenants in their loan and bond documents, including debt service coverage and liquidity ratios, minimum performance benchmarks and whether a debt service reserve tap triggers an event of default. While some covenant provisions provide opportunities to cure, others trigger immediate defaults. Due to current circumstances, it may be difficult for obligors to respond quickly to cash flow or minimum covenant issues that may cause a technical default under the related documents, although the obligor continues to meet its debt service payments. In certain instances, modifications to covenants may be the best route, but could have federal tax implications, some of which are noted above.

Events of Default and Remedies. Although events of default and remedies are deal-specific, there are some general considerations to be taken into account. Any forbearance arrangement can have federal tax implications, as noted above. The applicable documents may contain cross-default and acceleration provisions. The remedy of specific performance may be impracticable in light of current circumstances, particularly in the context of subject to annual appropriation financings. "Material adverse effect" clauses that trigger defaults are often drafted ambiguously and may be the subject of dispute.

Other Considerations. Obtaining requisite consent to modifications to debt documents from bondholders may prove complicated when bonds are widely owned and held in book-entry-only format, particularly in transactions involving a trustee who may act only at the direction of bondholders.

SELECTED DISCLOSURE ISSUES

Issuers and conduit borrowers face unique considerations in addressing the impact of the COVID-19 pandemic on their financial position, operations and expectations when preparing a disclosure document related to their debt obligations and in evaluating their obligations under Rule 15(c)2-12 ("Rule") of the Securities Exchange Commission (SEC) and their written continuing disclosure undertakings. The following highlights selected concerns.

Primary Disclosure Document Considerations. There is currently no specific guidance from the SEC or the National Association of Bond Lawyers on how to address the impact of COVID-19 in primary disclosure documents and "best practices" in this regard will likely develop over time. Each transaction gives rise to its own unique circumstances in the context of disclosure and issuers and conduit borrowers must evaluate the disclosures to be made in the context of their obligations under the anti-fraud provisions of applicable securities laws. This is made more difficult because of the uncertainty surrounding the COVID-19 crisis, including its duration. Although market participants are aware of this uncertainty, issuers and conduit borrowers should not rely on this "general" knowledge when evaluating the disclosures to be made. In addition, under the Rule, an obligated person must disclose in its offering documents a failure to comply with its continuing disclosure obligations during the prior five years. Offering documents may now have to include an explanation of why a late filing was made due to the effects of the COVID-19 pandemic.

Continuing Disclosure Considerations. During a webinar presented on March 19, 2020 by the Municipal Securities Rulemaking Board (MSRB), two key questions were addressed by Ahmed Abonamah, deputy director of the SEC's Office of Municipal Securities and David Hodapp, assistant general counsel of the MSRB: (1) can the SEC provide relief for late filings due to extenuating circumstances arising from the COVID-19; and (2) should an obligated person file a voluntary general event notice about COVID-19 on the MSRB's Electronic Municipal Market Access website ("EMMA"), including to report that its offices are closed to the public and that personnel is working remotely. From the reported discussion of these questions on the webinar, the following summarizes the responses:

- The SEC lacks the authority to provide relief for late filings. If an obligated person is unable to timely file its annual financial and operating information, it should file a notice of failure to file, along with any other information required to be provided in its undertakings, on EMMA prior to the required filing date.
- The terms of the written undertaking control. Unless the impact of the COVID-19 pandemic on the obligated person gives rise to one of the reportable events under the Rule or is otherwise required to be reported pursuant to the undertaking, there is no need to file a general event notice. An obligated person may always make a voluntarily report regarding specific facts known to and affecting the obligated person (as opposed to general information already available to market participants). The election to make a voluntary report gives rise to other considerations, including whether it will open the door to the need to update the filing in the future.

Obligated persons should be familiar with all of the reporting requirements in their written undertakings, which may trigger notice events in specific circumstances in addition to the material events listed in the undertaking. Among matters, obligated persons should take care to closely follow the ratings of their debt obligations. The SEC has previously indicated in adopting statements for amendments to the Rule that a ratings watch or outlook change is not a reportable event. Depending on the particular undertaking, matters relating to a spike in rates for variable rate instruments, failed remarketings and commercial paper roll overs may trigger a reporting event. For undertakings entered into after February 28, 2019, a notice event may be triggered if an existing privately-placed obligation is modified. Finally, COVID-19 impacts may trigger material events for which notice is required.

As noted at the outset, this is a developing and evolving situation and the proper response will, in large part, be fact specific for each market participant. This alert is only intended to highlight selected matters to be considered in the context of the COVID-19 pandemic. Members of the Greenspoon Marder Public Finance Department are available to provide guidance in these and other matters that arise as we all navigate these unusual times together.

Greenspoon Marder LLP

USA April 22 2020

Can the Municipal Bond Market Weather the Coronavirus Storm?

The U.S. Federal Reserve is stepping in to toss a life preserve to the bond markets, including corporate debt and high yield, but few may have seen municipal bonds seeking help. Local government debt is perceived as some of the safest debt, but the coronavirus pandemic is raining on that safe haven parade.

“With local economies grinding to a virtual halt, businesses closed and more than 22 million Americans thrown out of work, the fallout is rippling through the $3.9 trillion markets that finances far more than just governments that virtually never default on their debts,” a Bloomberg report said. “Hospitals, airports, stadiums and speculative ventures like the Virgin Trains USA railroad in Florida have also sold debt through government agencies — and it’s backed by the money generated by their businesses.”

The report went on to state that a wave of defaults could follow, but whether it’s low tide or tsunami depends on how quickly local governments can recover in a post-coronavirus environment.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ on APRIL 20, 202

Robots Bought Munis Amid Record Sell-Off's 'Baptism of Fire'

- **Muni quants stepped in to buy when Wall Street pulled back**
- **Secondary market offerings soared as investors fled funds**

In March, Jason Diefenthaler, director of tax-exempt portfolio management at Wasmer Schroeder, noticed something.

On a typical morning, the Naples, Florida-based money manager would get 25 bids each for the 50 to 300 municipal bonds he put up for sale to dealers. Now, he was getting two to five and they weren't coming from Wall Street. Instead, independent firms that use algorithms to respond to thousands of auctions, were providing the best bids and buying bonds.

"Legacy dealers that we were accustomed to seeing step in were pulling back from all the volatility," Diefenthaler said.

The liquidity crisis peaked in mid-March as fears about the economic impact of the coronavirus pandemic unleashed an unprecedented $40 billion stampede out of municipal-bond mutual funds during a two-week period. With Wall Street dealers' inventories of unwanted securities swelling and traders focused on executing large trades for their biggest clients, algorithmic trading firms stepped in to make markets in smaller "odd-lot" bonds. These blocks of $100,000 or less make up 80% of secondary market trades.

On March 19, at the height of the sell-off, the number of unique bonds put up for auction in the secondary market rose to 32,000, triple the average. Headlands Tech Global Markets LLC, an affiliate of Headlands Technologies LLC, a Chicago-based quantitative trading firm, responded to 20,000 offerings, executing 4,400 trades, Chief Executive Officer Matt Andresen said in an interview. In March, the firm averaged 4,700 trades a day, compared with 1,600 in February.

"Our activity exploded," Andresen said. "We knew this was a chance to really make our name in a baptism of fire."

Nevada-based Sierra Pacific Securities LLC's trading volume increased two to three times, reaching more than 1,000 trades a day, said Jarrod Dean, the firm's co-president. New York-based Brownstone Investment Group LLC's said its daily portfolio turnover, a measure of trading activity, reached as high as 20% in March.

Quantitative trading firms like Headlands, Sierra Pacific and Brownstone crunch more than a decades worth of data to build pricing models for hundreds of thousands of municipal bonds that rarely trade. Wall Street banks also employ machines to trade the smaller pieces of debt that prevail in the retail-oriented municipal market.

They bid each day on thousands of securities put up for sale on electronic platforms like ICE Bonds, Tradeweb Markets Inc. and MarketAxess Holdings Inc. After purchasing the bonds, the firms turn around and offer them seeking to capture a profit.

The $3.9 trillion municipal market still largely functions through over-the-counter trading where mutual funds, insurance companies and wealth managers place orders over the phone directly with dealers. However, electronic trading is growing, with 12% to 15% done that way, Greenwich Associates estimated last year.

The average daily volume of municipal-bond trades on Tradeweb rose to about $400 million in March, a 44.8% increase from a year earlier, the company reported. MarketAxess reported an average of $61 million traded in March, triple the prior year. ICE Bonds, a unit of Intercontinental Exchange doesn't report trading volume.

Firms using a pricing algorithm picked up a larger share of trades on Tradeweb in March, said John Cahalane, head of Tradeweb Direct, the company's retail trading platform. He declined to share specifics.

"If you didn't have some kind of suggested pricing or algorithmic pricing, you couldn't possibly have been responding to just the sheer number of requests for quotes," Cahalane said. "If there was an advantage the algo firms had during that period, it was the ability to be present."

Yet, some investors said they saw a noticeable decline in bidding by algorithmic traders during the extremely volatile period. With too many sellers at once and buyers scarce, prices went into free-fall and closely-watched trading relationships went haywire. On March 23, yields on five-year municipal bonds skyrocketed to 6.5 times yields those on Treasuries of the same maturity, almost three times the peak during the 2008 financial crisis.

"Their presence in the market at times of volatility has diminished," said Lyle Fitterer, co-head of municipal investments at Baird Advisors, said of algo firms. "They don't take a tremendous amount of capital risk."

The pullback by computer traders was more evident among banks that use them, not independent firms, said Ben Pease, Head of Municipal Trading at Breckinridge Capital Advisors Inc., which oversees $40 billion assets. The average number of bids Breckinridge received on odd-lot bonds from major bank algos dropped by almost half during the weeks of March 9 and March 16 from the prior two weeks, he said. On average, they bid on about 30% of Breckinridge's thousands of items, down from about 75%, he said.

"My feeling is that banks were selectively allocating their remaining capital, which ultimately reduced bids for the extensive numbers of odd lots and small blocks seeking liquidity," Pease said. "'Pure' algo shops provided more liquidity when it was needed, albeit at a higher cost."

The cost to trade investment-grade state and local government bonds maturing between 5 and 10 years rose to almost 2.6 percentage point on March 25 as all dealers demanded more compensation for the risk of taking debt onto their balance sheets, according to BondWave, a financial technology company.

Headlands was able to balance its buying and selling throughout the month, Andresen said. Computers enabled the firm to react to the market and update prices in real time. The market value of the firm's portfolio was just under $1 billion at its peak in March.

"It was definitely harrowing," said Andresen, a former co-chief executive at Citadel Securities, who founded Headlands in 2010. "Your P&L will swing around and your portfolio will swing around. We're not going to panic, we're not going to drop out of the market."

Bloomberg Markets

By Martin Z Braun

April 20, 2020, 8:22 AM PDT Updated on April 20, 2020, 4:00 PM PDT

Two New Muni-Bond Delinquencies Triggered by Coronavirus Crisis.

Two new municipal-bond delinquencies have emerged, both of which appear to be triggered by the Covid-19 crisis, according to the Municipal Securities Rulemaking Board, the regulator for municipal bonds.

The first is for Massachusetts Development Finance Agency Health Care Facility Revenue Bonds, Series 2007A, Series 2007C, Series 2007D, Series 2007E, and Series 2007F, and Series 2010. The proceeds were used to fund the Lafayette Rehabilitation and Skilled Nursing Facility and the Fairhaven Healthcare Center. The interest payment due on April 15 wasn't paid, the agency said in a filing.

The second delinquency was for the City of Topeka, Kan., Economic Development Refunding Revenue Bonds, Series 2011A, which originally funded the YMCA of Topeka's new recreation center. "Recently, the overall revenue of the Topeka Y has dropped, impairing the ability of the Topeka Y to properly fund the Series 2011A Bonds," the YMCA said in a filing.

On April 14, a bond issued by the City of Terre Haute, Ind., is believed to be the first municipal default disclosure related to disruptions caused by the novel coronavirus.

Barron's

By Leslie P. Norton

April 21, 2020 2:25 pm ET

The Coronavirus Crisis Is Starting to Hit Muni Bonds. Why That Matters.

Delinquencies in the municipal market—already on the rise as counties and cities get squeezed by the coronavirus crisis—are likely to worsen amid soaring unemployment, rising alarm about stressed municipalities, and Federal conflict about aid. This could lead to pernicious consequences for investors, who rely on muni bonds for safety and income, as well as for the people who rely on the multitude of city services—such as schools, hospitals, transportation, and sewers—that these bonds finance.

This week, Sen. Majority Leader Mitch McConnell said he supports the idea of allowing states to use bankruptcy protection to reduce debts instead of supporting them with more federal aid. Trouble is, most cities and states can't operate on deficit spending and the law currently prohibits bankruptcy for states.

Meanwhile, Congress approved a $484 billion coronavirus rescue package , which included no funding for state and local governments.

Continue reading.

Barron's

By Leslie P. Norton

April 24, 2020 6:30 pm ET

Tax-Exempt Bond Tools for Governments Facing Cash Flow Challenges.

With their taxpayers facing financial difficulties from Coronavirus Disease 2019 (COVID-19), state and local governments may in turn face temporary cash flow disruptions. To alleviate these disruptions, governmental entities may want to consider short term tax-exempt working capital financings permitted by the Internal Revenue Code of 1986, as amended (the Code). Revenue Anticipation Notes (RANs) or Tax Anticipation Notes (TANs, collectively, TRANs) are designed to cover short-term mismatches between revenues and expenses. Some governmental entities use these tools on a regular basis, but others may be missing out, particularly now, on the benefits of these tools. This Alert is intended to help governmental entities avail themselves of these short-term borrowing options.

The Concept

Every state and local government assesses and imposes taxes, whether sales taxes, ad valorem property taxes, wage taxes, or personal and business income taxes. Some of these taxes produce cash flow reasonably consistently through the year. Others come in in large, predictable receipts. State and local governments also receive other revenue, some on a predictable schedule, some not. Every state and local government has rather predictable working capital costs, the timing of which may not vary as much as the timing of its revenue receipts. This mismatch creates a need for short-term borrowing to pay budgeted expenses before the budgeted revenues are received; a need that may be met with TRANs.

When the economy grinds to a sudden halt, state and local governments are forced to reevaluate their budgets and their related cash flow needs and expectations and may determine that they would benefit from a short-term working capital borrowing in anticipation of revenue to be received later. For example, these entities may defer the timely payment of taxes causing a mismatch between revenues and expenses not previously experienced. This is another potential use for TRANs.

Additional incentive for issuing TRANs may be the added liquidity feature offered by the Federal Reserve. As discussed in an April 10 GT Alert, the Board of Governors of the Federal Reserve System launched a Municipal Liquidity Facility, which will purchase up to $500 billion of TRANS and other short-term notes from states and certain local governments.

Applicable Rules

Governmental Purpose

Borrowing to meet cash flow requirements of a governmental operations budget is a governmental purpose that generally may be financed with tax-exempt bonds. The rules that limit the ability of a state or local government to borrow for working capital needs are the rules related to arbitrage and rebate.

The Arbitrage and Rebate Rules

The arbitrage rules restrict how many bonds may be issued, when they may be issued, and how long they may remain outstanding. If too many bonds are issued, or if bonds are outstanding longer or issued earlier than they are needed, the bonds will be treated as an over-issuance and will be taxable arbitrage bonds (the Over-Issuance Rule).

Additionally, two arbitrage rules place investment restrictions on proceeds of the bonds and certain other amounts. The first rule generally restricts the yield on unspent proceeds of the bonds and on amounts available to repay the bonds (collectively, gross proceeds) to a yield that is not materially higher than the yield on the issue (the "Yield-Restriction Rule"). The second rule generally requires that in most circumstances investment earnings above the yield be "rebated" or paid to the U.S. Treasury (the Rebate Rule). Typically, if gross proceeds of a tax-exempt bond are subject to the Yield-Restriction Rule, they will not be invested at a return that generates a rebate obligation under the Rebate Rule. Because in some investment environments it may be difficult to invest gross proceeds below the yield on the issue, the Yield-Restriction Rule permits higher yielding investments during the period when the gross proceeds would be expected to be spent or held (each, a temporary period). During these "temporary periods" there may be excess investment earnings that will be subject to the Rebate Rule, unless an exception to the Rebate Rule applies.

How the Rules Apply to TRANs

The Over-Issuance Rule limits when, how much, and for how long a state or local government may borrow for working capital purposes on a tax-exempt basis. Under this rule, a bond that qualifies for a "temporary period" under the Yield Restriction Rule will not violate the Over-Issuance Rule. However, in applying the Over-Issuance Rule, as well as in applying the Yield Restriction Rule and the Rebate Rule, the Code treats tax-exempt proceeds as spent on working capital only if there are no other amounts available to be spent for such purpose (the Proceeds Spent Last Rule). Each of the applicable rules is explored below.

Under the Yield Restriction Rule, an issuer that issues a TRAN may benefit from a 13-month "temporary period" during which the issuer may invest the proceeds of the TRAN at an unrestricted yield provided that the proceeds of the TRAN are expected to be used for expenses within 13 months. A longer period of two years is permitted for TANS if (a) the TAN is reasonably expected to be paid from tax revenues from one fiscal year, and (b) the TAN matures by the earlier of two years or 60 days after the last date for timely payment of those taxes. Under the Rebate Rule, there is an exception that permits an issuer to keep arbitrage earned if all gross proceeds are spent within six months of the issue date. There is also statutory safe harbor for determining if the TRAN meets the six-month exception to the Rebate Rule. That safe harbor (the Six Month Safe Harbor) applies if the actual cumulative deficit, as described below, exceeds 90 percent of the proceeds of the TRANs within six months after issuance.

Under the Proceeds Spent Last Rule, proceeds will be treated as spent for working capital expenditures only after other available amounts (in the case of working capital expenditures, revenues and taxes available for that purpose) are spent. To apply this rule, a governmental entity must consider its expected available revenues (including any amounts unspent from the prior year) and expected expenditures to determine the amount of cash flow deficit that may be financed with a TRAN. In making this computation, the issuer generally is permitted to disregard a reasonable working capital reserve, generally equal to 5 percent of the prior fiscal year's actual working capital expenditures. However, in applying the Six Month Safe Harbor to rebate, a governmental entity is not permitted to disregard a reasonable working capital reserve.

The small issuer exception to the Rebate Rule may also apply. Ordinarily, this rule applies if the governmental entity reasonably expects, as of the issue date, that it will not issue during the calendar year more than an aggregate face amount of tax-exempt governmental bonds of $5 million, or the issuer does not in fact issue more than such amount during the calendar year.

Additionally, a TRAN will not be considered outstanding longer than is reasonably necessary, under the anti-abuse rules in the regulations, if the final maturity date is not later than the applicable temporary period, generally 13 months.

Computation Example

Governmental entity has $2 million available cash for working capital expenditures at the start of the fiscal year. Its prior year's actual working capital expenditures were $33 million, which means the governmental entity may set aside a reasonable working capital reserve of $1.65 million (5% x $33 million), which it will finance from the $2 million available cash. The governmental entity receives a small portion of its revenues throughout the year, but generally it receives its tax revenues in Months 2 and 3. In this hypothetical, the governmental entity permits taxpayers an additional 90 days to timely pay taxes to accommodate financial difficulties that its taxpayers are facing from COVID-19 shutdowns. The entity also expects more late payment of taxes than in prior years, resulting in a large portion of taxes expected to be received in Month 7. Thus, most of the tax revenues will be received in Months 5 and 6, leaving the governmental entity with significant cash shortfall in Months 2 and 3. The governmental entity intends to finance that shortfall with TRANs that is issued in Month 1 and that matures in Month 11.

Greenberg Traurig LLP – Rebecca L. Caldwell-Harrigal and Vanessa Albert Lowry

April 17 2020

XBRL US Data Quality Committee Public Exposure of 12th Ruleset.

US GAAP and IFRS filers, investors, XBRL providers encouraged to participate

The XBRL US Data Quality Committee (DQC) has published its 12th Ruleset for a 45-day public review and comment period, which closes on June 1, 2020. DQC rules aid US GAAP and IFRS issuers in preparing consistent, error-free financials, by providing automated checks that test an XBRL-formatted financial statement prior to SEC submission. Issuers that use the rules can find and correct errors, to ensure that regulators and investors are provided with good quality data and the most accurate view of corporate financial health. Access the public review: https://xbrl.us/data-quality/rules-guidance/public-review/

The latest Ruleset contains three new rules for US GAAP filers which alert filers to situations where: 1) an invalid value was reported for a percentage item; 2) values on Maturity Schedules were not tagged correctly; and 3) scale is not correct for values reported for common stock outstanding. The Ruleset also augments the existing US GAAP Negative Value rule with additional concepts to help filers guard against signage problems.

Ruleset 12 also contains two new rules for IFRS filers which identify: 1) values that were reported as positive but should be negative, and 2) values reported for durational elements that do not aggregate correctly.

Separately, the Data Quality Committee is also seeking comment on guidance prepared to help in XBRL formatting for Variable Interest Entities. This guidance is out for public review until May 1, 2020. Access this guidance: https://xbrl.us/data-rule/guid-vie/

The XBRL US Filing Results & Quality Checks application allows SEC Filers or other interested parties to check EDGAR submissions for DQC errors for any company here: https://xbrl.us/data-quality/filing-results/

Graphical depictions of historical DQC error count, categorized by rule type, can be seen here: https://xbrl.us/data-quality/filing-results/dqc-results/

The DQC, which is funded through the XBRL US Center for Data Quality, is responsible for developing guidance and validation rules that can prevent or detect inconsistencies or errors in XBRL data filed with the SEC, and focuses on data quality issues that adversely affect data analysis. All approved rules and guidance are free and publicly available.

Filers have immediate access to all final approved rules as well as the 12th Ruleset in public review so that they can check their filings prior to SEC submission. There are several options available to filers:

Through software that has been certified to run with the ruleset: https://xbrl.us/certification
Through the XBRL US checking tool: https://xbrl.us/check
By downloading the Approved Rules and using them with Arelle – the open source version of the SEC's EDGAR Renderer/Previewer: https://xbrl.us/dqc-releases

To access the approved rules and guidance, go to: https://xbrl.us/rules-guidance

Members of the XBRL US Center for Data Quality include Altova, the American Institute of CPAs (AICPA), Broadridge Financial Solutions, Certent, DataTracks, Donnelley Financial Solutions (DFIN), P3 Data Systems, RDG Filings, Toppan Merrill, and Workiva.

For more information on the XBRL US Data Quality Committee and the Center for Data Quality, go to: http://xbrl.us/data-quality

About XBRL US

XBRL US is the non-profit consortium for XBRL business reporting standards in the U.S. and represents the business information supply chain. Its mission is to support the implementation of business reporting standards through the development of taxonomies for use by U.S. public and private sectors, with a goal of interoperability between sectors, and by promoting XBRL adoption through marketplace collaboration. XBRL US has developed taxonomies for U.S. GAAP, credit rating and mutual fund reporting under contract with the U.S. Securities and Exchange Commission, taxonomies for public utilities reporting for the U.S. Federal Energy Regulatory Commission, and has developed industry-specific taxonomies for corporate actions, solar financing, state and local government financials, and surety processing. http://xbrl.us

Links:
Access the public review: https://xbrl.us/data-quality/rules-guidance/public-review/
Learn about the XBRL US Center for Data Quality: https://xbrl.us/cdq
Find software that has been certified to run the rules: https://xbrl.us/certification

[Senators Want Federal Innovation Centers to Help State and Local Governments.]

A group of 16 democratic senators wrote a letter to congressional leadership urging them to relax regulations that prevent two federal innovation hubs from quickly partnering with state and local governments, as the IT systems of lower levels of government struggle to handle coronavirus-related inquires.

The letter, dated April 22, calls for additional emergency funding for the General Services Administration’s Technology Transformation Service and the Office of Management and Budget’s U.S. Digital Service to provide IT assistance to state and local governments.

The senators wrote that TTS and USDS have the technologists and resources to assist state and local governments, whose systems are overwhelmed by the vast amount of citizens applying for government help, like unemployment or small business loans.

However, red tape makes it difficult for the entities to partner below the federal level. TTS’ rules mandate that it must establish an Intergovernmental Cooperation Act agreement that could take up to three to four months to formulate, the letter said. OMB policies also require a waiver for states to use “best-in-class” digital products developed by TTS.

“The COVID-19 pandemic has overwhelmed state and local government benefits systems due to unprecedented numbers of applications and outdated systems,” the senators wrote. “More than 22 million Americans have filed unemployment claims in the past four weeks alone. News reports abound showing hours-long hold times for Americans seeking assistance with unemployment claims, small business loans and grants, and other emergency programs. These federal programs, which are administered by the states, are of the utmost importance to American workers and businesses.”

The senators called for $50 million for the USDS for new technologists to help state and local governments and a reduction on restrictions on working with state and local governments. As for TTS, the senators asked for $25 million in emergency appropriations for the Federal Citizen Services Fund, which provides funding for engagement opportunities for public-facing government programs. The letter also asked that regulations preventing partnership be waived.

“During this national emergency, when speed is vital for millions of Americans, red tape is preventing the federal government’s skilled technologists from helping the state and local agencies that need them most,” the senators wrote.

The letter notes that many states are using legacy systems to serve its citizens. For example, the letter adds, New Jersey is running a system that uses COBOL code, a legacy program language, prompting its governor to call for COBOL programmers to help the state.

The letter is signed by Sens. Ron Wyden, D-Ore., Sheldon Whitehouse, D-R.I., Kyrsten Sinema, D-Ariz., Kirsten Gillibrand, D-N.Y., Kamala D. Harris, D-Calif., Sherrod Brown, D-Ohio, Edward J. Markey, D-Mass., Doug Jones, D-Ala., Mazie Hirono, D-Hawaii, Bob Menendez, D-N.J., Mark Warner, D-Va., Jacky Rosen, D-Nev., Cory Booker, D-N.J., Dick Durbin, D-Ill., Gary Peters, D-Mich., and Chris Van Hollen, D-Md.

The letter is addressed to Senate Majority Leader Mitch McConnell, R-Ky.; Senate Minority Leader Chuck Schumer, D-N.Y.; Speaker of the House Nancy Pelosi, D-Calif.; House Majority Leader Steny Hoyer, D-Md.; and House Minority Leader Kevin McCarthy, R-Calif.

Federal Times

by Andrew Eversden

The Fed will Include Smaller Cities and Counties in Its Municipal Lending Program.

The Federal Reserve on Monday said it would substantially expand its municipal lending program, an effort to provide relief to strapped states and cities as the coronavirus outbreak drains public coffers.

The Fed had previously announced that it would buy short-term debt from states, cities with populations of more than one million and counties with populations exceeding two million. On Monday, it expanded that to cities with more than 250,000 residents and counties with more than 500,000. It also announced that it would buy slightly longer-term debt: securities that mature in three years will qualify for the program, up from two years previously.

The program, which has yet to start, will operate through the Federal Reserve Bank of New York. It will be backed by $35 billion in Treasury Department funding, and will be capable of buying up to $500 billion in eligible debt.

A total of 261 states, cities and counties will qualify for the program, the Fed said. So will some multistate issuers, which can include entities like the Port Authority of New York and New Jersey.

The New York Times

April 27, 2020

CDFA Bond Provisions Letter Writing Campaign.

Call to Action

CDFA has begun a targeted letter-writing campaign to ensure that MAMBA and Disaster-Area Recovery Bonds are included in the stimulus. We ask that industry stakeholders send letters to the House and Senate members to support CDFA's Modernizing Agricultural and Manufacturing Bonds Act and Disaster-Area Recovery Bonds. To make this process easier, we have created sample letters for your use.

Download the sample letter provided below and modify them to fit your letterhead. Email and fax letters to your representatives ASAP. Please also copy CDFA on any correspondence, and we will follow-up with the appropriate office holder.

Download the Sample Letter

When sending letters please follow these instructions:

- Use this sample text to craft your letter.
- Letters should be tailored to reflect your state/city and placed on your organization's letterhead.

- For full Congressional office contact information use the map below, or go to www.house.gov or www.senate.gov.
- Letters should be faxed to your Congressional first.
- Mail letters AFTER you fax them. They will take several days to reach the Capitol office.
- For assistance with drafting your letters, do not hesitate to contact CDFA.
- Send a copy of your letter to CDFA's Government and External Affairs Team.

Sign CDFA's Letter to Congress

To facilitate a speedy recovery, the Council of Development Finance Agencies (CDFA) and our joint coalition of partners is urging Congress to improve tax-exempt bonds.

By including a bond finance title in the next Stimulus Act, Congress would signal that bonds are a critical economic recovery tool, and allow for several common-sense changes to be passed related to the efficiency and effectiveness of tax-exempt bonds.

Completing this form adds your name to our coalition of partners, including non-profits, development agencies, bond issuers and cities and states throughout the country supporting efforts to improve tax-exempt bonds.

Read the Letter

Fed Gearing Up to Help Smaller Local Governments.

The central bank hinted from the start that it could broaden its municipal debt purchases.

The Federal Reserve could soon expand its plans to buy municipal bonds, as lawmakers from both parties pressure the central bank to do more to support smaller cities and counties suffering amid fallout from the coronavirus.

Fed officials said on April 9 that they would begin purchasing municipal bonds using their emergency lending powers, pledging to buy up to $500 billion in bonds from states and the biggest cities and counties. In doing so, they crossed a line they have long treated as sacred: buying local bonds is potentially charged territory for the politically independent Fed.

Continue reading.

The New York Times

By Jeanna Smialek

April 20, 2020

States See No Immediate Sign of Financial Help.

Governors are pushing Congress for $500 billion in aid; Sen. McConnell says he supports states using bankruptcy protection

States across the country face an increasingly grim financial outlook due to the coronavirus pandemic shutdown—with no near-term sign the federal government will come riding to the rescue.

House lawmakers on Thursday approved another round of aid, but there was no direct help for states. The $484 billion bill, which the Senate approved Tuesday, replenishes two depleted small-business relief programs, offers additional assistance to hospitals and funds an expansion of testing capacity nationwide.

States are hemorrhaging money responding to the public-heath crisis at the same time tax revenues are cratering because of widespread stay-at-home orders and business closures. Some governors have already frozen or cut billions of dollars in spending.

The nation’s governors are pushing Congress to give states $500 billion to make up for lost revenues. The bipartisan National Governors Association is also asking Congress to help with health-care costs, unemployment-insurance payments and access to test kits and protective equipment.

Senate Majority Leader Mitch McConnell poured cold water on the pleas this week. The Kentucky Republican said he supports letting states use bankruptcy protection to cut their debts rather than providing more federal aid.

Aid to state and local governments will likely be a hotly debated aspect of the next round of coronavirus legislation on Capitol Hill. House Speaker Nancy Pelosi said Democrats will push to include money for local governments when lawmakers return in early May.

Mr. McConnell said he didn’t want to subsidize the high state pension obligations that predate the coronavirus crisis. In many cases, those obligations were negotiated years ago by governors and state-employee unions.

“There’s not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations,” he said.

State officials called the idea of filing for bankruptcy a nonstarter.

“You want to see the market fall through the cellar?” New York Gov. Andrew Cuomo said during his daily briefing on Thursday. “Let New York state declare bankruptcy. Let Michigan declare bankruptcy. Let Illinois declare bankruptcy. Let California declare bankruptcy. You will see a collapse of this national economy.”

Congress previously passed a $2 trillion aid package with $150 billion for state and local governments, but the money can be used only for coronavirus-related expenses. States say they need additional funding to plug budget holes, and some want greater flexibility when it comes to spending the $150 billion already approved.

The National Association of State Budget Officers says a cash influx would help the national economy rebound and warns states might have to cut essential services if Congress doesn’t approve more aid.

“States are currently facing revenue impacts that could dwarf what was observed in the last recession,” Marc Nicole, the association’s president, wrote in a letter Wednesday to President Trump and congressional leaders. States project declines of as much as 20%, as the pandemic hammers their biggest revenue sources, income and sales taxes, Mr. Nicole said, whereas total general-fund revenue fell 11.6% over two years during the 2007-2009 recession.

Mr. McConnell also suggested states could raise taxes to bring in more revenue. Unlike the federal government, almost all states are required to balance their budgets. That means that any new spending has to come from tax revenue or federal aid, rather than from borrowing.

Allowing states to file for bankruptcy would require congressional action and would almost certainly face legal challenges, said David Skeel, a University of Pennsylvania law professor. For one thing, it could be seen as violating a constitutional provision barring states from interfering in contracts. It could also run afoul of provisions protecting state sovereignty, he said.

David Adkins, executive director of the Council of State Governments, said he thought Mr. McConnell's comments were a posturing tactic in continuing negotiations with Capitol Hill Democrats. Sooner or later, he said, Congress is going to have to direct significant funds to state and local governments to prevent a wave of public-sector layoffs.

Mr. McConnell "has some vulnerable Republicans in states," Mr. Adkins said. "He does not want those vulnerable Republicans to be blamed for 20% cuts to public schools."

States' fortunes have changed at a dizzying speed. Just a few months ago, many governors rolled out lists of new proposals, buoyed by strong growth and robust revenue projections. States also sat on replenished rainy-day funds.

Though Washington state has roughly $3.5 billion in reserves, budget officials say projected revenue shortfalls over the next three years would wipe that out. Even with federal aid, the state would face major budget cuts, said David Schumacher, director of the state's Office of Financial Management.

"That's going to be a huge driver of whether we have bad budgets and significant cuts, or catastrophe," he said of the federal aid.

Cities are bracing for a budget crunch, too. More than 2,100 cities expect shortfalls, according to a recent survey by the National League of Cities and U.S. Conference of Mayors.

In response to the crisis, governors in some states have moved to limit spending by paring teacher raises and property-tax relief, and cutting higher-education funding. Virginia, for example, cut $500 million from outlays in the final quarter of the current fiscal year, which ends June 30, and froze $2.3 billion in planned new spending over the next two fiscal years.

Aubrey Layne, the state's finance secretary, said certain limits on new aid would make sense, such as a ban on pumping any of it into state pension systems.

"I understand this money shouldn't just be a blank check to go and bail out bad mismanagement over the years," he said. "A lot of what is happening now is simply because the economy is shut down."

Mr. Layne said bankruptcy wouldn't be an option for Virginia because "constitutionally we have to balance our budget."

State and local government bankruptcies are extremely rare with 0.16% of municipalities rated by Moody's Investors Service defaulting over a five-year period. That rate has increased from 0.09% prior to the last recession, which delivered huge hits to property-tax revenues and pension-fund savings.

U.S. states in particular are generally viewed as extremely creditworthy, and their bonds pay out interest at rates fairly close to U.S. Treasurys. Exceptions are Illinois, New Jersey and Mr.

McConnell's home state of Kentucky, which struggle with unfunded obligations to police, teachers and other public workers.

Roughly half of states allow their cities to access bankruptcy protection, and a few have used the process to reduce obligations to pensioners and bondholders. Puerto Rico entered bankruptcy in 2017 after Congress passed a law giving it permission to do so.

Detroit, the largest city to file for bankruptcy, emerged from bankruptcy protection in 2014 after a year and a half, but it continues to struggle with longstanding challenges like high liabilities and reliance on the auto industry.

Prices on Illinois and New Jersey tax-backed debt that doesn't come due for 15 or more years fell Thursday afternoon, with yields on those bonds rising by roughly a 10th of a percentage point relative to triple-A debt, according to Refinitiv data.

Refinitiv analyst Greg Saulnier said investors were probably reacting less to the possibility of bankruptcy for those states than to Mr. McConnell's apparent opposition to a large state aid package in the near future.

"It illustrated that he is in favor of delaying any additional state and local government relief, which could amplify credit problems," Mr. Saulnier said.

The Wall Street Journal

By Scott Calvert and David Harrison

Updated April 23, 2020 6:17 pm ET

—Joseph De Avila and Heather Gillers contributed to this article.

Fed Outlines Disclosure Plan for Lending Programs.

Plan Follows BDA Recommendations for Transparency

The Federal Reserve announced plans to disclose monthly the borrowers, loan amounts and interest rates on funding from new lending programs established this month following passage of the CARES Act.

The BDA in its April 14 letter, "urged the Fed to publish a list of all trades conducted by your portfolio manager" as well as other information.

The Fed, following the BDA recommendations, announced plans to disclose:

- Names and details of participants in each facility;
- Amounts borrowed and interest rate charged; and
- Overall costs, revenues, and fees for each facility.

The press release can be viewed here.

The disclosure requirements cover facilities the Fed is currently working to establish. This includes the:

- Main Street Lending Program
- Municipal Liquidity Facility
- Primary Market Corporate Lending Facility
- Secondary Market Corporate Credit Facility

The BDA will continue to provide updates as they become available.

Bond Dealers of America

April 24, 2020

Fed's $500 Billion Muni-Lending Plan Faces Hurdles in State Laws.

- **Debt limits, tight repayment rules could weaken reach of loans**
- **Underscores case from governors for direct aid from Washington**

There's a key obstacle threatening to limit the reach of the Federal Reserve's plan to lend to states and cities to limit the financial hit from the coronavirus: state laws.

The central bank's program, the first ever targeted at the $3.9 trillion municipal-debt market, will lend money for as long as two years to states and the largest cities and counties to help them avoid massive budget cuts as the deep economic slowdown decimates tax collections.

But some states, like Colorado and Alabama, may find their ability to draw on the Fed limited by constitutional provisions that make it difficult for them to run up debt. Others, like Maine, Michigan and Illinois, have laws that require repayment of loans within a tight time frame, which could dissaude officials from borrowing.

In some states, legislatures or voters may also need to approve debt issued under the Fed's program before it is set to lapse at the end of September, something that's complicated by social-distancing guidelines that have shuttered statehouses.

The issues are likely to limit the scale of the Fed's lending to states, underscoring the case that governors are making for direct aid from Washington to weather what threatens to be the gravest fiscal crisis in decades.

There's not much that the Fed could do with the existing program — other than perhaps expanding it to long-term debt — to get around some of the states' constitutional and statutory limits, said Dee Wisor, a bond lawyer for Butler Snow and former president of the National Association of Bond Lawyers.

"State-by-state, folks are going to have to work that out," he said.

In Colorado, the state faces a potential barrier from its taxpayer bill of rights, a notoriously difficult-to-change law that limits state taxes and spending. Because of it, voters must approve the "creation of any multiple-fiscal year direct or indirect" debt incurred by the state.

Leah Marvin-Riley, a spokeswoman for the Colorado treasurer's office, said the state has to make sure that its borrowings fit under the constitutional restraints. "We don't know yet how much we would sell, but we do know that we're limited by the TABOR cap," she said.

Caught 'Flat-footed'

New Mexico law says it can't borrow more than $200,000 to "meet casual deficits or failure in revenue." Alabama's 1901 constitution prohibits new debt unless lawmakers find a workaround. In neighboring Georgia, the state cannot directly borrow on behalf of smaller governments, as the Fed's program provides for in places where none of the local governments are big enough to qualify on their own, said Lee McElhannon, director of bond finance for the state.

"I just wonder whether a lot of governments, both state and local, are going to be caught a little bit flat-footed with all this," said Jodie Smith, a public finance lawyer at Maynard Cooper.

The Fed's loans don't have to be repaid for two years, which in theory would give governments time to get through virus-related shutdowns until tax revenue starts to revive.

Yet the time horizon creates an issue for states that have to pay back certain types of short-term borrowings by the end of the fiscal year, which could be in June 2020 or 2021, depending on when they borrow the money. Illinois, New Mexico and Maine are among the states that have such limits.

In Washington, the state can issue debt that's used to cover temporary revenue shortfalls so long as it's paid off within a year. Smaller municipalities in the state also face limits under their short-term borrowings, such as having to pay back certain notes six months after the end of the fiscal year in which they were sold, said Stacey Lewis, a public finance lawyer for Pacifica Law Group.

The Fed is still finalizing details and has asked for industry participants to send feedback.

The Government Finance Officers Association, a lobbying group, asked the Fed to extend its lending program until December because of the hurdles some governments face and the fact that the size of their shortfalls may not be known clearly for months.

Lewis, the Pacifica Law attorney, said she would like to see the Fed shift to buying a broader kind of municipal debt.

"If the Fed wants to really put money out through this program, it will have to listen to what's allowable under state law," she said.

Bloomberg Markets

By Amanda Albright

April 21, 2020, 6:54 AM PDT

— With assistance by Danielle Moran

Cohn Says States Deserve Aid in Response to McConnell Reluctance.

- **Former Trump adviser likens state aid to support for business**
- **McConnell has suggested letting states file for bankruptcy**

Gary Cohn, the former top economic adviser to President Donald Trump, said the federal government needs to help cash-strapped states with emergency financing, not leave them to seek more desperate solutions such as bankruptcy.

”States are in a horrible position,” Cohn said in an interview Thursday with Bloomberg Television. “Like we’re providing liquidity to small businesses, medium-sized businesses and large businesses, I think we also need to provide liquidity for states.”

As states grapple with the coronavirus pandemic, many governors are struggling with the dual problem of soaring health-care costs and plummeting tax revenue. The National Governors Association estimated that states and municipalities will need at least $500 billion in aid.

Congress on Thursday is expected to pass a bill that contains a $484 billion aid plan for small businesses and also gives additional funding for coronavirus testing and hospitals.

House Speaker Nancy Pelosi said Wednesday on Bloomberg Television that those “interim” measures would soon be followed by another stimulus bill that includes a “major package” of aid for state and local governments. Yet Senate Majority Leader Mitch McConnell indicated he was reluctant to support that approach, suggesting in a radio interview Wednesday that he favors letting states use bankruptcy protection as a means to cutting fixed expenses such as public-employee pensions.

New York Governor Andrew Cuomo called the suggestion “really dumb” and said it would precipitate an economic collapse.

Cohn, who served as director of the National Economic Council during the first two years of the Trump administration, also disagreed.

“All of a sudden they went from a very good operating environment to a very unusual or extraordinary operating environment,” he said. “I would hope that states never have to file for bankruptcy.”

What’s most important, Cohn added, is finding ways to restore economic activity, and with it state sales and income tax revenue.

Cohn, 59, favors the “road map” drafted by former Food and Drug Administration Commissioner Scott Gottlieb, which would rely on widespread testing for the virus and surveillance data to revive parts of the economy gradually. It’s possible, he said, for services such as small retailers and hair salons to reopen.

While he favors stimulus for state economies, Cohn also has concerns about the aid programs that pay individuals more in benefits than they would make working. He said he knows of fast-food restaurants and local retailers that can’t find employees for deliveries or preparing curbside pickups.

”We’re going to need people to re-engage and want to go back to work and not rely upon the government handouts,” Cohn said.

Among his other comments, Cohn, a former president of Goldman Sachs Group Inc., said:

- “The financial markets around the world have actually held up quite well. We’ve had relatively good liquidity, we’ve had very good price discovery.”
- The economic recovery will probably be “U-shaped.”
- “I don’t think we’re going to basketball or baseball games anytime soon.”
- Financial regulators should loosen bank capital and liquidity rules in times of crisis so more credit and cash are available.

Bloomberg Politics

By Erik Schatzker

April 23, 2020, 12:41 PM PDT

Pelosi Seeks ‘Major’ State Aid, Setting Up Clash With McConnell.

- **Package set for vote Thursday is ‘interim’ step, speaker says**
- **Now we have to go further,’ she says, with aid to governments**

House Speaker Nancy Pelosi said a “major package” of aid for state and local government will be in the next stimulus legislation considered by Congress, setting up a conflict with Senate Majority Leader Mitch McConnell who is urging a slowdown in doling out federal help.

The $484 billion aid plan set for passage by the House on Thursday is an “interim” step to mitigate some of the economic damage wrought by the coronavirus pandemic, Pelosi said Wednesday on Bloomberg Television.

“Now we have to go further to help state and local” governments, she said, without putting a price tag on the aid.

Although President Donald Trump said Tuesday he favored aid for states, McConnell has said any funds for states and municipalities should be reviewed carefully.

“We’re going to push the pause button here, because I think this whole business of additional assistance for state and local governments needs to be thoroughly evaluated,” McConnell said Wednesday on Hugh Hewitt’s syndicated radio program.

In the Bloomberg Television interview, Pelosi dismissed any concern about McConnell’s remarks, and she defended Democrats’ decision to back down from their initial call to include state and local funding in the interim bill awaiting a House vote Thursday.

“Let me remind you, this is Mitch McConnell, who said on the floor of the Senate there is no way we will do anything but the $250 billion” to shore up a small business aid program, said Pelosi. “Now, we are up to $480” billion in this week’s bill.

“This is an interim bill,” she said, adding that “the president himself has said, he as tweeted out, that was last night, that he is ready to do state and local” in the next legislation.

More generally, Pelosi said she isn’t concerned that emergency funding might not get to states, localities and other areas where it should.

“We will have a bright light shining on this,” Pelosi said, citing the oversight commission that was part of the earlier $2 trillion measure. In addition, the House on Thursday is set to vote on creating a special committee to oversee how coronavirus funds are used.

Bloomberg Business

By Billy House and David Westin

April 22, 2020, 9:26 AM PDT Updated on April 22, 2020, 10:19 AM PDT

— With assistance by Daniel Flatley, and Steven T. Dennis

[Fed's Muni Facility Leaves States Charting Tricky Path to Access.]

- **U.S.'s second-biggest economy exploring ways to deploy program**
- **Fed urged to increase eligibility so more entities can get aid**

As pandemic-plagued state and local economies start to feel the effects of vanishing tax revenue, officials like Texas Comptroller Glenn Hegar are trying to figure out how to build the mechanisms that can get cash from the U.S. central bank to all the places in need.

The Federal Reserve has launched an array of emergency lending facilities to help the U.S. economy during the virus lock-down, including one for municipalities that could support up to $500 billion of assistance to states and big cities. But the rules are strict: only cities with a population of more than one million, or counties with more than two million inhabitants, are eligible.

That means the vast majority of communities across the country will have to get the funds from their states, and many states don't have mechanisms for this process.

Seeking Answers

"We don't have a current program in Texas, and most states don't," Hager told Bloomberg News Tuesday in a telephone interview. "I don't know at this point exactly how we're going to do it, mechanically, but we're trying to get those answers as quickly as we can despite multiple fronts of uncertainty."

Changes may be on the way, even before the program is up and running.

The Fed said when it launched the Municipal Liquidity Facility on April 9 that it "would evaluate whether additional measures are needed," and has since signaled it was open to doing more, even as U.S. lawmakers called publicly for further steps. Senate Democratic Leader Chuck Schumer on Monday said in a statement that Fed Chairman Jerome Powell assured him the Fed was "working to make the program directly accessible to more cities and counties."

The economic hardship is already severe. The stay-home orders that have been issued in most places around the U.S. have led to record claims for unemployment benefits as businesses shut their doors. The subsequent plunge in consumer spending and other activity has likely already wiped out $200 billion in state and local government revenue, an amount equal to about 10%, TD Economics' Johary Razafindratsita and Sri Thanabalasingam wrote in an April 16 note.

Bipartisan Calls

Republicans and Democrats alike have called for various additional levels of Fed aid to the muni market. Idaho Senator Mike Crapo, whose state does not have any cities or counties that would directly qualify for the Fed's facility, called on the central bank to allow for more municipal entities to have access to the program.

Beyond the technical issues of having to set up a way to pass the Fed's facility funds from the state onto the smaller entities, some states may opt out of the facility for political or legal reasons.

“Citing statutory, constitutional, logistical, or just political hurdles, not to mention a reluctance to take (more of) the credit risk of their own local governments, multiple states seem likely to pass on the opportunity for a cheaply-financed local government liquidity facility,” Municipal Market Analytics’ Matt Fabian and Lisa Washburn wrote in an April 20 note.

Texas’s Hegar said that right now it doesn’t look like the state itself will need to tap the Fed’s facility. But it may need to on behalf of smaller towns and counties that don’t qualify. While three cities and three counties in the country’s second-most populous state qualify for the Fed’s facility, the state is home to 1,600 local governments.

Erode Significantly
“For this fiscal year, we know we’re OK, even though we do know that tax receipts are probably going to erode pretty significantly when we start seeing the data from March collections, much less April collections,” Hegar said.

Texas is not getting hit with the drop in personal income tax revenue that many states will see, as it doesn’t collect income tax.

On average, about half of state government revenues come from individual income and sales taxes, according to Amanda Page-Hoongrajok, an assistant professor of economics and finance at Saint Peter’s University in Jersey City, New Jersey. Most states have laws preventing them from running budget deficits, so drops in revenue streams have to be matched with cuts elsewhere.

Following the 2008 financial crisis, state and local government spending was subdued for years, Page-Hoongrajok said.

“If they don’t give state governments more aid, we’re going to see a prolonged recovery,” she said. “They’re not going to be able to recover from a drop in incomes and consumer spending this severe.”

Bloomberg Economics

By Catarina Saraiva

April 22, 2020, 4:00 AM PDT

— With assistance by Danielle Moran, Daniel Flatley, Amanda Albright, and Alexandre Tanzi

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How Will the Coronavirus Affect State and Local Government Budgets?

State and local governments are on the frontlines of this crisis. That means increased spending on public health and Medicaid. As of March 26th, 14 states have enacted supplemental appropriations or transferred general revenue funds in order to help public health agencies deal with the virus, and many others are in the process of doing so. Others will be offering assistance—delays in tax payments or expanded unemployment insurance to affected workers—to cushion the blow on their citizens and residents.

From a public health perspective, ensuring that these agencies have all the funds required to address this crisis is of utmost importance. But economically, the larger source of stress may

be the effects of the coming recession. Large scale “social distancing” will reduce consumer spending and workers' wages and, in turn, cause sales and income tax revenues to plummet. State tax revenues declined by more than $120 billion—about 9 percent—during the Great Recession (Q2 2008 – Q2 2009), for example.

Continue reading.

The Brookings Institution

by Sage Belz and Louise Sheiner

Monday, March 23, 2020

The Federal Reserve Bank's Municipal Liquidity Facility.

On April 9, 2020, the Federal Reserve Bank announced the creation of the Municipal Liquidity Facility (MLF) to help local units of government handle working capital issues caused by COVID-19. The MLF is authorized under Section 13(3) of the Federal Reserve Act.

The MLF will purchase up to $500 billion of short term notes issued by eligible issuers. Eligible issuers include:

- States, including the District of Columbia;
- Counties with a population of 2,000,000 or more; and
- Cities with a population of 1,000,000 or more.

The MLF is designed to have the funds flow from states and other large issuers down to local units of government, hence the high population threshold noted above. Due to this design, it will be up to each state to determine (i) if it will participate as an eligible issuer in the MLF, and (ii) if so, how will it get those funds to local units of government?

- **To be or not to be an eligible issuer?** To help make that decision, states can review the MLF term sheet available here. The Federal Reserve Bank is also soliciting feedback in order to publish additional guidance on the MLF. That guidance is expected as early as next week. Each state may also want to gather input from local units of government on the need to participate.
- **How to get funds to local units of government?** States can take a proactive approach and begin to brainstorm how to get the funds to local units of government. There might be a range of possibilities from creating a uniform loan application process, to purchasing short term notes issued by local governments.

We will continue to monitor any guidance published by the Federal Reserve Bank. As states make decisions about their participation and process, we will post state-specific guidance for local units of government to use.

Taft Stettinius & Hollister LLP

by Daniel Burns, Manny Herceg, Blake J. Burgan, Chou-il Lee, James Shanahan and Steven Cuckler

USA April 20 2020

Column: As Coronavirus Devastates State Budgets, Conservatives Target Public Worker Pensions

Apparently on the principle that one shouldn't let a crisis go to waste, conservatives are using the coronavirus crisis to take aim at a favorite target: public employee pensions.

That was the explicit subtext of Senate Majority Leader Mitch McConnell's broadside against bailing out state and local governments, which he set forth during an interview Wednesday on right-winger Hugh Hewitt's radio program.

But McConnell is not alone. Conservative commentators Andrew G. Biggs and Eileen Norcross wrote on April 13 that "financial support for key services such as health, welfare, and public safety should not be allowed to morph into a more generalized bailout of state and local pension plans… Any future federal aid packages that might be used to meet pension plan obligations should be conditioned on structural pension reforms."

> I don't think any public employee, even a great teacher of 30 years, should make more than a colonel in the Army or the Marine Corps who served 25 years, or a captain in the Navy.

Conservative radio host Hugh Hewitt

These "reforms" included freezing public pension plans for future benefit accruals, and supplanting defined benefit plans, in which employees are insulated from the risk of market downturns, with 401(k)-style defined contribution plans, in which they bear all the risk.

Meanwhile, the libertarian group Illinois Policy called on Congress to reject that state's $44-billion federal aid request, which includes a $10-billion grant or loan to short up the state's public pension plans.

The thread connecting this advocacy is not only ideological. The sources are all associated with the Koch brothers network, among other right-wing funding operations.

McConnell has long been a recipient of Koch campaign contributions. The Mercatus Center at Virginia's George Mason University, which published the piece by Biggs and Norcross, has been heavily supported by the Koch network; Charles Koch is listed as an emeritus member of its board, and its founder and current board member Richard Fink is a longtime Koch aide.

Illinois Policy is part of a network of Koch-linked think tanks that have targeted public union membership, in part by advancing lawsuits to hamper dues collections.

Now let's examine the themes tying all this together.

As we reported earlier, McConnell and Hewitt performed a call-and-response routine for the latter's radio audience in which they suggested that the fiscal pain being felt by states stems largely, if not entirely, from ostensibly overgenerous public employee pensions.

"Some of the benefits they grant are ridiculous," Hewitt said. "I don't think any public employee, even a great teacher of 30 years, should make more than a colonel in the Army or the Marine Corps who served 25 years, or a captain in the Navy."

But it's fair to ask, "Izzatso?" Hewitt didn't explain why a teacher shouldn't retire with as much as a colonel; he just counted on McConnell agreeing supinely.

McConnell obligingly chimed in with the observation, "We'll certainly insist that anything we'd borrow to send down to the states is not spent on solving problems that they created for themselves over the years with their pension programs."

He even suggested that it would be better if states could declare bankruptcy (there's no such provision in the law), even though plainly state bankruptcies would disrupt their operations beyond description.

Biggs and Norcross stated that "the most serious pension funding gaps are largely the result of failures to undertake meaningful pension reforms over the course of the past decade." That's a broad statement that requires "meaningful pension reforms" to carry a lot of weight.

Many states' pension gaps are the result of fiscal strains that prompted them to underfund their annual pension contributions in recent years. Many of those states already have taken steps to correct that trend, but the hangover from previous years persists.

Biggs told me via Twitter that it's unfair to describe his position as applying to all state requests for federal assistance, only to specific requests for pension help. "It's clear that we didn't oppose federal aid to states to Covid-related costs," he wrote, "but that if a state wants aid for pensions, as Illinois apparently does, that should come with conditions."

The Los Angeles Times

by Michael Hiltzik

April 24, 2020

[Fed Municipal Rescue Won't Avert Fiscal Nightmare, So States Eye Congress.]

The money will barely make a dent in resolving local government needs caused by the pandemic, which is threatening to create thousands of fiscal disasters nationwide.

The Federal Reserve's move this month to bail out the municipal bond market with $500 billion in short-term debt was a historic step by the central bank to directly intervene in local government finances for the first time.

It's just not nearly enough, local officials say.

The money will barely make a dent in resolving local government needs caused by the coronavirus pandemic, which is threatening to create thousands of fiscal disasters nationwide. Officials say Congress must provide hundreds of billions more — but this time in direct federal grants — in the next economic rescue package.

"You can't borrow your way out of debt," said Tim Schaefer, California deputy state treasurer for public finance. "Financial solutions are helpful, and we certainly don't want to turn our nose up at them, but what really is going on here requires a fiscal response."

Inaction by federal lawmakers could mean cutoffs or reductions in local services that the pandemic has made even more crucial, right down to paying for ambulances that take coronavirus patients to the hospital, state finance officials said. The tens of thousands of bonds issued in the $4 trillion market by states, cities, counties and other governmental entities also finance projects such as schools, highways, airports and sewer systems.

Put simply, the Fed assistance merely keeps government bank accounts from overdrafting in the short-term.

To be sure, the Fed action April 9 extended a vital line of credit to states, the District of Columbia, counties with populations over 2 million and cities with populations over 1 million, at a time when market rates for short-term debt had been skyrocketing in reaction to the economic upheaval.

But while cash flow is an important and immediate problem, it underlies an even broader fiscal nightmare facing governments nationwide.

That's because the sweeping shutdowns of businesses to prevent outbreaks from overwhelming local hospital systems has come at a steep cost. Revenue dried up because of business closures, stay-a--home orders, layoffs and, in many cases, delayed local tax deadlines designed to align with an extension announced by the IRS in late March.

The magnitude of the costs that lie ahead partly explains the outcry among local leaders at Senate Majority Leader Mitch McConnell's suggestion on Wednesday that municipalities might "use the bankruptcy route" to dig themselves out of a financial morass.

Until then, localities had been encouraged by pledges of support from Democratic leaders in Congress as well as the White House. President Donald Trump on Tuesday tweeted a promise to provide "fiscal relief to State/Local Governments for lost revenues from COVID 19" in the next legislative relief package after Congress reached a deal to top off the popular Paycheck Protection Program offering small businesses forgivable loans.

But the dropoff in revenue is much steeper than the $500 billion credit being offered.

Moody's Investors Service in an April 15 report said the $500 billion accessible through the Fed's so-called Municipal Liquidity Facility would amount to more than 10 times the short-term debt issued by governments in all of 2019. But it amounts to only about 20 percent of the approximately $2.4 trillion in revenue that state and local governments collected in 2017, the year the Fed is using to calculate payouts.

The Fed could still take broader action or widen eligibility; right now, the population thresholds leave out impoverished cities such as Detroit and Baltimore.

Senate Minority Leader Chuck Schumer said Monday he told Federal Reserve Chair Jerome Powell that the central bank had set its population threshold "way too high" for the program.

"He assured me that the Fed was similarly working to make the program directly accessible to more cities and counties," the New York Democrat said of Powell.

But the central bank also suggested that larger governments could use bailout money to help lend to smaller governments.

Recognizing the crisis ahead, Sens. Bill Cassidy, a Louisiana Republican, and Bob Menendez, a New Jersey Democrat, have proposed a $500 billion bailout package for state and local governments.

Many states said they either don't have infrastructure in place to set up loans to smaller governments or they're wary of taking on credit risk for towns and counties at increased risk of default.

Michael Decker, senior vice president for federal policy for the Bond Dealers of America, said the Fed should publicly commit to taking on credit risk for downstream loans made to smaller governments.

"We're urging the Fed to be explicit, when they finalize the details of the program, to be explicit that the Fed will absorb this credit risk and if downstream borrowers default, it'll be on the Fed and not on the states," Decker said. "And we think that will go a long way to helping ensure the success of the program."

The Fed declined to comment for this story.

At the same time, state finance officials said they are doing what they can to aid smaller governments, but they need more help.

"The federal government has the power to print more money, and in these difficult times of uncertainty, states need as much help as they can get from the federal government," said California State Treasurer Fiona Ma. "And the more help that we get, the more help we can be to local governments, which are looking to us for assistance."

Sarah Godlewski, the Democratic Wisconsin State Treasurer, said that her office is working to reorient a state trust fund loan program to provide "bridge financing in smaller ineligible communities."

Godlewski said she has been asking smaller governments: "With limited support from the federal government, how can we help you help Wisconsinites?"

POLITICO

By KELLIE MEJDRICH

04/23/2020 07:30 PM EDT

McConnell Supports Giving States Bankruptcy Access.

Senate Majority Leader favors bankruptcy option over giving states more federal aid as they grapple with coronavirus

Senate Majority Leader Mitch McConnell said Wednesday that he supports the idea of allowing states to use bankruptcy protection to cut their debts instead of supporting them with more federal aid.

Cities and smaller public entities have historically used bankruptcy protection to reduce pension obligations, bond debt and other financial burdens. But bankruptcy is a tool currently off-limits to state leaders. Federal law doesn't give states a bankruptcy option and Congress isn't actively considering any such proposal.

On a syndicated talk radio show, Mr. McConnell, a Republican from Kentucky, floated the idea of opening bankruptcy as a potential option for states that have struggled with pension debt even before the public health crisis caused by the new coronavirus. The pandemic has battered local economies, causing steep declines in sales taxes, transit fees and other sources of municipal revenue.

Bankruptcy protection “saves some cities, and there’s no good reason for it not to be available” to states, Mr. McConnell said.

He said he doesn’t favor using federal assistance money borrowed “from future generations” to fill in state budget gaps.

Leaders on Capitol Hill are discussing how to help states and municipal governments cope with financial damage caused by the pandemic, which has led to businesses being closed and millions of employees being laid off. The next round of federal stimulus legislation is expected to focus on municipal assistance.

In a letter to Congressional leaders on Tuesday, the National Governors Association asked for $500 billion in direct federal aid to make up for a decline in revenues that pay for state programs related to health care, education, public safety and transportation. The letter didn’t mention pension struggles that some states faced before the pandemic.

For years, many states and cities have promised pension benefits to employees based on optimistic investment return projections and have sometimes skimped on annual retirement fund contributions. The shortfalls are particularly severe for New Jersey, Kentucky and Illinois.

Illinois alone is $234 billion short of what it needs to pay promised benefits, according to an estimate by Moody’s Investors Service.

Any legislation that enables states to use bankruptcy could give state officials debt-cutting power similar to what some cities have used, though some scholars contend that such tools may not be constitutional. Roughly half of U.S. states enable their cities and other municipal entities to use chapter 9 protection, the type of bankruptcy designed for public bodies.

Many high-income American households invest in the bonds of cities and states because the interest is exempt from federal and state taxes. Those municipal bondholders have taken haircuts in past city bankruptcies.

The municipal bond market largely shrugged off Mr. McConnell’s comments Wednesday. Bonds issued by Illinois and New Jersey continued to trade at the same spread to triple-A rated debt as the day before, according to Refinitiv data. Both states already pay elevated interest rates as a result of their high liabilities.

Detroit’s $18 billion bankruptcy in 2013 marked the largest filing by a city in U.S. history. The 680,000-resident city blamed tax revenue that fell after the real estate crash and the city’s population decline. Its bankruptcy-exit deal cut $7 billion in debt owed to Wall Street firms, city retirees and others.

Puerto Rico filed for bankruptcy in 2017 after Congress passed a law permitting the territory to access bankruptcy protection.

Federal judges in charge of Detroit’s case, along with the bankruptcy filing of Stockton, Calif., ruled that worker pensions could be cut as part of the restructuring process. Before those filings, legal experts disagreed on whether city leaders had that power.

The Wall Street Journal

By Katy Stech Ferek and Heather Gillers

April 22, 2020 8:22 pm ET

Bid to Let States Go Bankrupt Met Rapid Demise a Decade Ago.

- **Senate Leader McConnell voices support for idea in interview**
- **Governors, Wall Street, lawmakers, unions blasted it before**

The last time America's states were in the throes of a crippling fiscal crisis, an idea was floated in Washington to help them swiftly bring it to an end: let them file for bankruptcy and escape from the trillions of dollars owed to bondholders and retired public employees.

It was immediately condemned by Wall Street investors, public employee unions and Republican and Democratic governors, who said it was unnecessary and would saddle them with rising interest rates by spooking the bond market. The discussion was dropped after a single hearing in the U.S. House of Representatives.

But on Wednesday, with the nation's state capitals again facing massive budget shortfalls because of the stalled economy, the idea resurfaced when Senate Majority Leader Mitch McConnell voiced support for it during a radio interview.

"I would certainly be in favor of allowing states to use the bankruptcy route," McConnell, a Republican from Kentucky, said during an interview on the Hugh Hewitt show. "It saves some cities. And there's no good reason for it not to be available."

The comments came as Congress considers extending aid to cities and states that are seeing tax revenue disappear as wide swaths of the economy are shut down. The resulting budget gaps could force deep spending cuts that would exert a drag on any recovery. Governors alone have asked for $500 billion to help soften the blow of what could be the worst fiscal crisis they have faced in decades, with cities also requesting funds.

But allowing states to file for bankruptcy is unlikely to gain much support, given the near universal opposition it faced a decade ago. Then, states were quick to say it was unneeded: With the broad power to raise taxes, no state has defaulted on its debt since the Great Depression. Even only a handful of struggling cities resorted to bankruptcy during the last contraction, since it was seen as a last resort that would hobble their ability to raise money for public works.

Matt Fabian, a partner with Municipal Market Analytics who testified before Congress during the House hearing in 2011 when state bankruptcy was last raised, said it's just an effort to sidestep the discussion about extending aid.

"That's just a red herring," he said of McConnell's comments. "State bankruptcy is probably not possible under the U.S. Constitution, and there's even less chance that Congress would attempt to allow it. The Senator's statement is really about the likelihood of his caucus providing more aid directly to the states than it is about state bankruptcy."

"Once you start talking about state bankruptcy being a better option than more federal assistance, you’re really saying you don’t want to provide more federal assistance,” he said.

There has been little speculation on Wall Street that states will be unable to pay their debts because of the coronavirus pandemic, even though it’s expected to increase the financial strains on already struggling states such as New Jersey and Illinois. While municipal bond prices tumbled last month during waves of panicked selling, they rebounded after Congress enacted the $2.2 trillion stimulus bill.

Eric Friedland, director of municipal research at Lord Abbett & Co LLC, said that McConnell’s comments, while “unsettling,” are unlikely to create panic among municipal bond investors.

On Wednesday, yields on top-rated 10-year bonds rose 6 basis points to 1.21% while yields on the longest-dated debt climbed 6 basis points to 2.04%.

Democrats unsuccessfully pushed for state aid in the interim rescue package that passed the Senate on Tuesday. McConnell took credit for blocking that, saying there should be a “fulsome” discussion among all senators on whether and how to send more aid to state and local governments and what that money should be spent on.

“My guess is their first choice would be for the federal government to borrow money from future generations to send it down to them now so they don’t have to do that,” he said of states. “That’s not something I’m going to be in favor of.”

Bloomberg Business

By William Selway and Danielle Moran

April 22, 2020, 9:33 AM PDT

— With assistance by Amanda Albright

U.S. State Bankruptcy Was a Farce Then and Now.

Mitch McConnell tries to revive a long-dead idea that would counteract the government’s relief efforts.

No one was asking, but it turns out a global pandemic isn’t enough for Senate Majority Leader Mitch McConnell to take a break from fretting about purportedly “borrowing money from future generations.”

Never mind that the three-month-old coronavirus crisis has led to more than $2.3 trillion in congressional appropriations, to say nothing of the $484 billion relief package that passed the U.S. Senate on Tuesday. Much of those funds, after all, aided small businesses and hospitals, sent direct payments to families and expanded unemployment insurance. All of this promises to blow an almost $4 trillion hole in the federal government’s 2020 budget.

Apparently, helping out U.S. states is a bridge too far for the Kentucky Republican. In a response to a question on the syndicated Hugh Hewitt radio program, McConnell declared, “I would certainly be in favor of allowing states to use the bankruptcy route.” He added that “it’s saved some cities, and there’s no good reason for it not to be available.” Hewitt singled out California, Illinois and

Connecticut, three states that just so happen to reliably vote Democratic (no mention of New Jersey, repeatedly downgraded during Republican Governor Chris Christie's eight years).

McConnell went on:

> "My guess is their first choice would be for the federal government to borrow money from future generations to send it down to them now so they don't have to do that," he said. "That's not something I'm going to be in favor of."
>
> "I said yesterday we're going to push the pause button here, because I think this whole business of additional assistance for state and local governments needs to be thoroughly evaluated," McConnell added.
>
> "You raised yourself the important issue of what states have done, many of them have done to themselves with their pension programs," he said. "There's not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations."

Again, never mind that an article from the latest Bloomberg Businessweek magazine is about how seven years after bankruptcy, Detroit is once again staring down a huge budget shortfall that puts it on the brink of a state takeover. Far from a panacea to get out from under onerous obligations, municipal bankruptcies have proved to be so messy, costly and time-consuming that they're often not enough to solve the underlying issues. Case in point: Puerto Rico.

McConnell's idea isn't a novel one by any means. The idea of state bankruptcy was raised after the last recession, too, including by David Skeel, who now sits on the Financial Oversight & Management Board for Puerto Rico. He wrote an article for The Weekly Standard in November 2010 titled "Give States a Way to Go Bankrupt." When I asked him about it in December 2011, after muni bonds posted a 10.7% return and a meltdown never materialized, he said "the political enthusiasm for the state bankruptcy idea has temporarily dimmed." That's one way of putting it. Here's another from Bloomberg News's William Selway and Danielle Moran: It was dropped after a single hearing in the House of Representatives.

The concept of state bankruptcy as a solution to get through this unprecedented period is little more than a farce. Even President Donald Trump appears to realize that. After meeting with Governor Andrew Cuomo of New York on Tuesday, he said that states will need assistance, adding that "I think most Republicans agree, too, and Democrats." Governors have asked for some $500 billion.

As much as McConnell tries, this is not about profligate Democratic governors and their underfunded public pension funds. At a basic, fundamental level, many states will have to impose draconian austerity measures without federal support because governors need to balance their budgets. That means either more state employees joining the ranks of the unemployed, higher tax rates (and therefore less money changing hands in local economies), further neglect of critical public infrastructure improvements, or once again shortchanging the pension promises of tomorrow to make the numbers add up today. Potentially all of the above.

Withholding state support, in other words, would directly counteract the measures that McConnell and his fellow senators have already set in motion to bolster the American economy. What good is a $1,200 check if states are backed into raising taxes that take most of it away? Will small businesses bounce back if their neighbors are unemployed, or local roads and bridges remain decrepit?

Fortunately, while McConnell and Republican senators have a "fulsome" discussion on whether and how to send more aid to state and local governments, the Federal Reserve has taken the unprecedented step I advocated for a year ago and will buy up to $500 billion in muni bonds. It was almost too predictable how this would play out:

> The easy answer would be directing more cash from the federal government to the states. But the 2009 stimulus program already transferred an unprecedented amount of money into state coffers and the results were middling at best. In the current political climate, and with U.S. deficits already running close to $1 trillion, it's anyone's guess whether a similar package could come together.
>
> That means it might be up to the the Fed to get involved in the $3.8 trillion municipal-bond market to give states a much-needed boost.

For now, the muni market can take some solace in knowing the Fed has its back. That should prevent any sort of wild swings like last month. And it buys some time for House Speaker Nancy Pelosi, who said on Bloomberg TV on Wednesday that a "major package" of aid for state and local government will be in the next stimulus legislation considered by Congress, putting her clearly at odds with McConnell.

For all the posturing, no politician truly wants to impose austerity. Just before the 2018 midterm elections, McConnell brought up the idea of slashing spending on Social Security, Medicare and Medicaid, and that's gone nowhere. Expect the same for state bankruptcy.

Bloomberg Opinion

By Brian Chappatta

April 22, 2020, 11:51 AM PDT

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

McConnell State Bankruptcy Remarks Raise Constitutional Questions.

Municipal finance experts say that it may be unconstitutional for Congress to allow states to declare bankruptcy, and that even if it is constitutional, it would be a bad idea.

Experts on state and local government finances say that Congress may not have the right to grant states the ability to file for bankruptcy under the Constitution. They also argued that bankruptcy wouldn't be particularly helpful in addressing states' coronavirus-related challenges.

"Bankruptcy is just not a viable solution to the issues state and local governments are facing," said Michael Decker, senior vice president for federal policy at the Bond Dealers of America.

People are talking about the issue because Senate Majority Leader Mitch McConnell (R-Ky.) this week suggested it would be better for states to be able to declare bankruptcy rather than have the federal government provide more money to help them through the coronavirus crisis.

“I would certainly be in favor of allowing states to use the bankruptcy route,” he said on conservative talk show host Hugh Hewitt’s program.

“There’s not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations,” he added.

A senior Senate GOP aide said McConnell’s comments came after he was asked specifically about the issue. The leader doesn’t see allowing states to file for bankruptcy as being a priority for the next coronavirus bill and is well aware of the law. But the aide said McConnell’s larger point was that some states were in tough financial straits due to prior mismanagement or overspending.

The U.S. bankruptcy code does not include provisions that allow states to declare bankruptcy. Local governments have the ability to file for bankruptcy under Chapter 9 of the code, but only if their state authorizes them to do so.

Very few localities have filed for bankruptcy over the years, with the most prominent recent example being Detroit in 2013. Congress passed a law in 2016 that created a bankruptcy-like process for the federal territory of Puerto Rico.

Professors who have studied the issue say there would be obstacles to Congress allowing states to declare bankruptcy, and that a law on this topic would likely spur a legal case that would likely go to the Supreme Court.

Kenneth Katkin, a law professor at Northern Kentucky University, said that a law about states filing for bankruptcy would set up a debate over whether Congress’s ability to write bankruptcy laws preempts the prohibition in the Constitution on states impairing their own obligations under contracts.

“It’s not clear how the court would rule,” he said.

Others have suggested that there could be concerns about whether allowing states to file for bankruptcy would conflict with the 10th amendment of the Constitution, which states that powers not delegated to the federal government nor prohibited for states are reserved to the states.

Municipal finance experts also said that even if a law on state bankruptcies was found to be constitutional, it would be an unwise policy because it would make it harder for states to sell bonds used to finance capital projects.

Such a law “would upend the traditionally low borrowing costs of state and local governments,” said Richard Ciccarone, president of Merritt Research Services.

Frank Shafroth, director of the Center for State and Local Government Leadership at George Mason University, said that if states could declare bankruptcy, it would allow state politicians to pass off some decision-making to a judge.

“It would save too many governors and state legislators from making hard decisions,” he said.

Experts also said that bankruptcy might not be a particularly helpful remedy for the challenges states are experiencing due to the coronavirus crisis. Because of the pandemic and measures taken to reduce the number of infections, states have new spending needs and are facing a decline in tax revenues.

Eric Kim, head of the state government group at Fitch Ratings, said that companies will file bankruptcy to address long-term liabilities, but states' main issue is currently the economy and lower revenues rather than long-term liabilities.

"Declaring bankruptcy doesn't fix the economy," he said.

States have been asking for additional funds from the federal government, not the ability to seek bankruptcy protection.

The National Governors Association earlier this week asked Congress for $500 billion in direct aid to states to replace their lost revenue. The group's leaders, Maryland Gov. Larry Hogan (R) and New York Gov. Andrew Cuomo (D), have both blasted McConnell's comments on bankruptcy.

Brian Sigritz, director of state fiscal studies at the National Association of State Budget Officers, said states on the whole were in a strong fiscal position prior to the coronavirus-related economic downturn, experiencing strong revenue growth and putting more money into their rainy-day funds.

"They had been taking steps to prepare for the next downturn," he said. "No one was planning for a decline like this."

McConnell expressed concerns about state pensions. Some experts said that while some states have pension challenges, pension funds are not overall a major burden.

"State pensions generally actually are in pretty good shape," Kim said. He added that in the long run, state pensions could be affected by market declines, but the current pressing problem for states is revenue losses, not pensions.

However, desire among state politicians for pension relief from Congress is not zero. Last week, Illinois state senate president Don Harmon (D) sent a letter to the state's congressional delegation asking for $10 billion in pension relief, arguing that state pension payments crowd out funding for other services and that the crowding out will be exacerbated this year due to revenue losses. Illinois is among the states with the biggest pension issues.

Additional aid to states is becoming a key issue in the debate in Congress over subsequent coronavirus relief legislation.

Funding for states is a top priority for many Democrats, who want quick congressional action on another bill. But McConnell has said he wants to take a "pause" to see which parts of previous bills are working and which are not.

"I think this whole business of additional assistance for state and local governments need to be thoroughly evaluated," McConnell told Hewitt on Wednesday.

Karol Denniston, a municipal bankruptcy lawyer at Squire Patton Boggs, said that McConnell's comments to Hewitt are starting a conversation about what other options might exist besides additional federal money for state and local governments, even if bankruptcy isn't the best alternative.

McConnell's comments have "opened up the discussion," she said.

THE HILL

BY NAOMI JAGODA – 04/25/20 12:50 PM EDT

U.S. State Bankruptcy Push Would Disrupt Municipal Bond Market - BofA

CHICAGO, April 24 (Reuters) – Allowing U.S. states to file for bankruptcy is not the way to deal with deep financial problems the governments are facing from the COVID-19 economic disaster, and would knock down the municipal bond market, BofA Global Research said on Friday.

In a research report BofA said the $3.8 trillion muni market where states, cities, schools and other issuers sell debt would "certainly sell off" if the idea garnered support.

U.S. Senate Majority Leader Mitch McConnell on Wednesday brought up state bankruptcy as a preferred alternative to sending more federal money to the governments to plug their budget holes and potentially pay for pensions. President Donald Trump on Thursday said his administration would look at the idea.

Several Democratic governors slammed the notion as irresponsible. Municipal market analysts said the move would face big political and constitutional hurdles and was unlikely to gain traction.

"It will be highly disruptive to the municipal bond market broadly and will result in significantly higher borrowing rates at a time when those costs are least absorbable," the BofA report said.

It added states would not likely opt for bankruptcy for fear of hurting their market access and that most municipal bankruptcies have resulted in a better treatment for pensions than bondholders.

Currently, only cities and other local governments can use Chapter 9 municipal bankruptcy to restructure their debt if allowed by their states. Puerto Rico, a U.S. commonwealth, commenced a form of municipal bankruptcy in 2017 after the U.S. Congress authorized it.

The National Governors Association has been pushing for $500 billion in federal money to replace revenue lost by states. The $2.3 trillion federal CARES Act allocated $150 billion to states and local governments exclusively to cover virus-related expenses.

With social distancing and stay-at-home orders in place around the nation aimed at slowing the virus' spread, nonessential businesses and services have shuttered, leading to skyrocketing unemployment and lower consumer spending. As a result, cities and states are starting to project deep revenue losses, particularly for big money generators like income and sales taxes

In addition, the stock market downturn could push overall state pension debt to an all-time high, according to a new report from The Pew Charitable Trusts. With 75% of state pension assets invested in stocks and alternative investments, pension debt, currently at $1.2 trillion, could climb by $500 billion, absent positive returns in the next three months.

By Karen Pierog

April 24, 2020

(Reporting by Karen Pierog in Chicago Editing by Alden Bentley and Matthew Lewis)

GFOA Resource Center for Coronavirus Response.

Access the GFOA Resource Center.

The GASB Offers Emergency Toolbox to Address Issues Arising from COVID-19.

Access the Toolbox

04/14/20

UPDATED: A Resource Guide to Coronavirus for Government Leaders

The novel coronavirus has tested the durability of federal, state and local governments around the country and the world. This list of resources is meant to connect leaders with useful tools to aid in response efforts.

As COVID-19 continues to spread across the country, I've curated some resources from around the Web for my state and local government network. This is updated every 24 hours, please fill out this form if you have other resources, templates or COVID-19 solutions that should be added.

Tip: One helpful tip for navigating this guide is to use CTRL-F or CMD-F (for Macs) to search specific keywords or needs.

You can track the spread of coronavirus through this interactive dashboard from Johns Hopkins and Esri, FAO and NOAA.

Continue reading.

GOVTECH.COM

BY DUSTIN HAISLER / MARCH 18, 2020

CDFA COVID-19 Resource Center.

Development finance has always been at the forefront of recovering from natural disasters and economic challenges. The CDFA COVID-19 Resource Center is a collection of financing programs and resources to address disaster relief and recovery.

As the situation surrounding COVID-19 evolves, small businesses and communities across the country will very quickly face liquidity challenges, job losses, and project stagnation. Credit will be tightening and small businesses will struggle to make payroll while communities will be forced to scale back or halt infrastructure development. Moreover, communities are facing difficulties financing critical infrastructure such as health facilities, broadband networks, and testing centers to address local COVID-19 demands.

Development finance agencies are uniquely positioned to solve these challenges through pragmatic solutions and adjustments to existing initiatives. CDFA developed this COVID-19 Resource Center to serve as a central hub of everything the development finance world is doing to mitigate the impacts of COVID-19.

Access the Resource Center.

Municipal Credit Ratings And ESG Ratings: Irreconcilable Differences?

It sounds ideal, almost too good to be true. An attractive urban center in a scenic part of the country. A regional economic hub drawing a youthful, educated population taking jobs at the nation's fastest growing companies. Per capita income levels nearly at six-figures. Unemployment in the very low single digits. A trifecta "Trip-Trip" credit rating: AAA from Moody's, Standard & Poor's and Fitch—three of the top credit rating agencies.

This idyll is the city of Seattle, Washington, located on the gorgeous Puget Sound. It's a growing, vibrant, young city. The average age is around 36 years old. Residents are a well-educated group; more than 60% have a bachelor's degree. Nearly 100,000 new residents called Seattle home over the last decade. They come in response to the well-paying jobs offered by the seemingly ever-expanding Amazon, Starbucks and Microsoft, and the ancillary professional businesses that serve them. This has pushed the average per capita income to $90,438 (2018). A decade prior, it was $58,990.

To city leaders, all this is great news. The population and job growth kept home building increasing nearly year over year. The value of real property as increased as well, with assessed values at $208 billion (2018), a compounded 76% increase over the last ten years. This boosted the city's finances. Seattle's coffers are brimming with $1,541 million in revenues and a zaftig fund balance of $483 million (2018). The debt burden on its outstanding $703 million in general obligation bonds is very modest. The major pensions are well funded and present no serious future liabilities to be concerned about. No wonder the city was bestowed its top-drawer credit rating.

Continue reading.

Forbes

by Barnet Sherman

Apr 15, 2020

Term Sheets for Fed COVID-19 Response Facilities.

In response to the COVID-19 pandemic and the passage of the CARES Act, the Federal Reserve has taken unprecedented measures to calm the markets. The BDA continues to take proactive steps to guide the Feds response.

All BDA advocacy including direct Fed correspondence can be found here.

Please find below links to Term Sheets on all facilities the Fed has introduced:

- Municipal Liquidity Facility
- Money Market Mutual Fund Liquidity Facility
- Primary Market Corporate Credit Facility
- Secondary Market Corporate Credit Facility
- Commercial Paper Funding Facility
- Main Street New Loan Facility
- Main Street Expanded Loan Facility
- Term Asset Backed Securities Loan Facility
- Paycheck Protection Program Lending Facility

Bond Dealers of America

April 16, 2020

California Bond Sale Signals Hope for Muni Market Normalcy.

- **Sale results are 'sunshine with a pot of gold at the end'**
- **The $1.4 billion sale is the biggest since the market retreat**

California's pricing of more than $1 billion of debt may be a sign that the municipal-bond market is returning to normal.

On Thursday, California sold $1.4 billion of general obligation bonds in the largest offering in the primary market since it effectively shut down last month amid a massive sell-off that spooked investors and crimped the ability of states and local governments to raise money.

Bank of America Corp managed the negotiated sale, pricing 10-year debt with a 5% coupon at 1.4% yield. Proceeds will be used to fund public works projects and to refinance higher yielding debt.

California increased the size of the borrowing from an initial $1 billion because of strong demand, selling $446 million more of refunding bonds than had been anticipated. That saves the state $334 million in debt service costs over the next 20 years, according to a statement from state Treasurer Fiona Ma.

"This is a great result for the State of California," Ma said. "We were anxious about the sale heading into this dreary market. We ended up getting sunshine with a pot of gold at the end. I think this is a good sign for the market."

Investors agree. Wesly Pate, a portfolio manager at Income Research & Management in Boston, said the California sale is an "important step" in having the market return to normal.

"Issuance will beget issuance," he said in an interview on Friday. "One or two deals won't get the ball rolling but we have to start somewhere. Well known blue-chip equivalent issuers in the muni market will access it first and once that starts to occur you will get things moving in the right direction and return to a more normalized issuance market."

California's bond sale came the same day municipal bond mutual funds reported an inflow of cash for the week ended Wednesday, snapping six straight weeks of withdrawals during the record setting retreat by investors.

“The market is open,” Pate said. “Participants aren’t running from the market…they are present and they are willing to buy bonds as long as it’s a straight-forward credit.”

Bloomberg Markets

By Danielle Moran

April 17, 2020, 11:46 AM PDT

— With assistance by Sophia Sung
