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Finance

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

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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

Table of Contents

- Immediate: Liquidity
- Near- To Mid-Term: Funded Levels
- Long-Term: Maintaining Sustainable Funding
- Related Research

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

Table of Contents

- U.S. Economy Drops Into A Recession
- April Apartment Rent Collections
- Can HFA Multifamily Programs Withstand Job Losses And Late Rent Payments?

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.

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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

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- All Rated Higher Education Institutions Face COVID-19-Related Credit Pressures
- Outlook Revisions To Negative
- Outlook Revisions To Stable
- Issuer-Specific Reviews Will Be Conducted
- Certain Not-For-Profit Higher Education Institutions Excluded From These Outlook Revisions

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.

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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
- Related Research

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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- Nevada And Hawaii Are Expected To Be Most Affected Based On Their Significant Tourism Concentration
- Other States With Tourism Sectors Are Also Facing Pressure
- The Already Projected Significant Economic Contraction In The U.S. Is Magnified In The Tourism Sector
- The Effects On State Ratings Will Depend On Concentration And Financial Management In Tough Times
- Sector Size Matters, But Proportion Relative To The State Matters More

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.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.

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*

An Indiana City’s Bond May Be First to Default Because of Coronavirus.

A bond issued by Terre Haute, Ind., is believed to be the first municipal default disclosure that is related to disruptions caused by the coronavirus .

The Terre Haute disclosure is probably “the first…identifying a pending bond default due to COVID-19. Unfortunately, this is likely not the last of this category of filing, formally labeled ‘Non-payment Related Default,’” according to a statement from the Municipal Securities Rulemaking Board.

Event notices tend to be a lagging indicator as they must be filed within 10 days of the triggering event.

The related bonds are the Terre Haute Economic Development Solid Waste Facility Revenue Bonds, tax-exempt series 2017a, and the Economic Development Solid Waste Facility Revenue bonds, taxable series 2017b.

Pyrolyx Indiana, which operates the facility, said that as a result of the coronavirus outbreak, it was temporarily shutting down manufacturing at its facilities in Terre Haute and Stegelitz, Germany. The Terre Haute plant produces carbon black for tires and other rubber products. As a result, Pyrolyx is unable to make loan payments to the city. The payments back the bonds.

The statement can be found here.

Barron’s

By Leslie P. Norton

April 14, 2020 2:23 pm ET

GFOA Urges Fourth Stimulus Package to Deal with Coronavirus.

Read the GFOA letter.

A Fed Bailout Is Wrong for States and Cities.

The central bank should adjust its lending methods to prevent abuse by profligate local governments.

The Federal Reserve recently announced a huge expansion of well-designed lending facilities for companies and local governments. But its Municipal Liquidity Facility will purchase up to $500 billion in short-term notes from the largest cities and all states—even if they have been mismanaging their finances for years. To minimize the program’s risk, the Fed should buy these short-term notes at discounts based on the issuer’s financial condition and should resist the urge to buy long-term bonds from local governments.

To fund the MLF, the Fed will establish a special-purpose entity, backed by $35 billion from the Treasury, to buy notes with maturities of up to 24 months from any state or city with more than one million residents, or county with more than two million. That means the 10 largest cities and 15 largest counties in the U.S.

Yet the MLF lacks some of the protections against losses that are built into other Fed lending programs. Many of the emergency facilities require that assets being purchased hold an investment-grade rating, either currently or right before the pandemic hit. The MLF has no such requirement.

The Main Street Lending Facility will purchase loans made to midsize companies from participating banks, which must retain 5% of each loan. That gives the banks a powerful incentive to assess each borrower’s ability to repay. By contrast, the MLF will purchase notes directly from governments, without due diligence by any private-sector lender.

Although these short-term notes are backed by state and local taxes, revenue will likely plunge over the next two years. The MLF’s maximum amount of notes purchased is set at 20% of a government’s revenues from the prior fiscal year. Yet that maximum doesn’t account for the expenses the government incurred in the same period, including obligations to fund pension plans and employee health care.

Some cities and states have worked hard to manage these obligations, while others let them mushroom. Accounting under reasonable assumptions, in 2017 these obligations consumed less than 20% of revenues in New York City and San Antonio but more than 60% in Chicago and Dallas. There’s a similar variety across states, where pension funding equaled 99% of liabilities in Wisconsin and 97% in South Dakota, but only 31% in Kentucky and New Jersey.

Fortunately, the Fed has indicated that it will base MLF prices on a government’s credit rating at the time of purchase. Details haven’t been announced, but ideally the Fed would offer much better prices for notes from governments with investment-grade rather than junk ratings. It should also amend its current plan by charging different origination fees depending on a government’s credit.

In addition to these improvements, the Fed should avoid taking the program in a dangerous direction. In announcing the MLF, the Fed said it would monitor the market for longer-term municipal bonds, implicitly suggesting it might extend the facility to the larger market for bonds with maturities of 10 to 30 years. The central bank’s independence would be undermined if it became a big purchaser of long-term bonds from financially weak but politically influential local governments. How would the Fed respond if a major city defaulted on its bonds?

States and cities will lobby hard for more federal assistance in the aftermath of the pandemic. If

Congress decides to give such assistance, it should approve substantial appropriations for local governments in the next stimulus package rather than hidden subsidies through the Fed. Legislative appropriations would be in plain view of American voters, who could then hold cities and states accountable for how they use federal funds.

Wall Street Journal Opinion

By Robert C. Pozen

April 15, 2020 6:02 pm ET

Mr. Pozen is a senior lecturer at the MIT Sloan School of Management and a former chairman of MFS Investment Management.

Phone Call Signals Fed Is Treading Cautiously With Muni Lending.

- **$500 billion program to help states, cities amid crisis**
- **After briefing, local officials see it a 'backstop' for market**

On April 10, a day after the Federal Reserve rolled out plans to make loans in the $3.9 trillion municipal-debt market for the first time, the central bank's Kent Hiteshew led a conference call with state and local government officials to explain how it would work.

The takeaway, according to those on the call, was that the $500 billion of loans available to the states and the biggest cities and counties should be seen as a lifeline that's available if the public markets seize up — not a first resort for governments desperate for cash to fill the growing shortfalls in their budgets.

Ben Watkins, who oversees debt sales for Florida and was on the call, said the Fed's short-term loans aren't meant to act in place of the market. "I would call it not a direct intervention but a tool to be used as backstop," he said.

The Fed has taken a cautious approach toward the recommendation by Congress in the $2.2 trillion economic stimulus law that it provide liquidity to the muni market. The sell off last month effectively shut off governments' ability to raise funds. Rather than buy already issued debt to help prop up the market — as some on Wall Street pushed for — it has decided to extend loans directly to help government's through the end of September as the severe economic slowdown pushes them toward what may be the worst fiscal crisis in decades.

The program, however, is only available to states and the approximately two dozen cities and counties that qualify under the Fed's minimum population limits, and a key element of it — how the bank will set the interest rates — has yet to be disclosed. That will be crucial to determining whether governments flood the Fed with requests or do so only as a last resort should the Fed charge a premium to market rates.

Market Premium

Under Section 13(3) of the Federal Reserve Act, which allows the Fed to make emergency loans, the Fed is supposed to set rates at a "premium to the market rate," according to a 2015 rule.

Watkins said officials on the call with the Fed last week were told the pricing would be higher than market rates. “We don’t really know what that means,” he said.

A spokesperson for the Fed declined to comment.

The Fed has taken a three-pronged approach in its support for a wide array of markets. In some cases, it is acting as a lender of last resort to short-term financing markets or the firms that are critical to them, such as money market funds. In another set of facilities, including the municipal facility, it is using its balance sheet to accomplish a goal requested by Congress. A third set of facilities is aimed at direct market support, where the Fed is using its balance sheet directly to buy the bonds of individual companies or make loans directly to them.

The central bank has said it could roll out further lending programs if needed, and its new powers helped end the steep sell-off last month that caused prices to tumble by the most in at least four decades as fearful investors yanked out their funds. The yields on the shortest-dated municipal debt — which money managers dumped to raise cash to meet withdrawals — have since tumbled from as much 2.8% last month to about 0.8%, according to Bloomberg’s benchmark indexes.

More Aid

The $500 billion of available loans promises to prevent governments from flooding the public market with short-term debt, which could have pushed up interest rates. By taking out so much supply, that could also help ensure that smaller cities and counties that can’t borrow from the Fed can still raise cash.

They may need quite a lot. The National Governors Association has said the federal government should extend some $500 billion of aid to the states alone to help them close budget shortfalls they will face over the next few years, while cities have sought $250 billion. It’s still unclear whether Congress will be able to extend such help with a second stimulus bill.

The governor of New Jersey, one of the states hit hardest by the pandemic, said Thursday that he wants to borrow as much as $9 billion from the Fed. Others, including Massachusetts and Hawaii, have been lining up private loans instead.

The central bank is still ironing out key details of the lending program and asked for market participants to provide feedback through April 16. Lobbying groups like the Bond Dealers of America have sent letters to the Fed with their perspective on the program and potential changes. The central bank is also expected to release a list of questions and answers about the program that will provide more detail.

Kenton Tsoodle, the assistant city manager of Oklahoma City and a Government Finance Officers Association official who was on the Fed call, said he took the bank’s comments as a sign that the Fed wants to act as fallback for borrowers who can’t otherwise raise what they need on Wall Street.

“I believe the goal would be that folks get out there in the regular market,” Tsoodle said.

Bloomberg Economics

By Amanda Albright and Danielle Moran

April 17, 2020, 8:01 AM PDT

— With assistance by Craig Torres

Muni-Bond Market Is Already Seeing a First Wave of Distress.

- **At least 8 senior care centers report troubles since mid-March**
- **Factories, medical centers, Las Vegas monorail affected, too**

Signs of distress are creeping into the muni market.

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 market that finances far more than just governments that virtually never default on their debts. 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.

Analysts widely expect to see more defaults in the state and local debt market, adding to the nearly $1 trillion of fixed-income securities that by last month had already tipped into distress nationwide, though the scale will depend heavily on how quickly the economy recovers. Speculation about such strains contributed to a record-setting pullback from municipal-bond funds last month, sending prices tumbling by the most in at least four decades until they rebounded on optimism about the $2.2 trillion economic stimulus enacted in Washington.

But some borrowers have already started warning bondholders about the impacts of the pandemic. Here are a few of them:

Senior Living

Senior living centers were already among the riskiest borrowers in the municipal market and the deadly pandemic that's swept through many homes for the elderly has made them even more so. At least eight senior living facilities have either defaulted or reported some kind of trouble since mid-March, according to data compiled by Municipal Market Analytics.

PSL Wiregrass LP, which issued $23 million bonds through Capital Trust Agency in Florida to build an 110-bed senior living facility, defaulted on its April 1 interest payment, in part because of cost increases connected to the virus. The Trousdale Foundation had to draw on reserve funds to make a April 1 bond payment, saying its financial strains have been "exacerbated" by additional staffing and safety protocols.

Factory Closures

A tire recycling company in Terre Haute, Indiana, said it won't be able to make loan payments backing municipal bonds sold in 2017 after the facility suspended production due to the virus, according to an April 6 regulatory filing by Pyrolyx USA Indiana LLC. The company has an interest payment due on June 1 it is unlikely to make.

Columbia Pulp I LLC, a waste-to-pulp facility in Washington, has also suspended operations. Because of the uncertainty about when it will reopen, the company said it is looking to pursue "additional sources of capital to sustain its operations through this challenging time," according to an April 6 filing.

A California company building the world's first facility for converting debris from rice cultivation into fiberboard said it will run out of money in May, according to a filing to bondholders by CalPlant I LLC. The company said the coronavirus pandemic has caused construction delays and higher expenses.

Proton Facilities

The Provision Cares Proton Therapy Center, which operates facilities in Tennessee, said April 2 “under normal operating conditions, the operating proton centers have been unable to generate sufficient cash flow to service the bond debt.” But the reduced number of patients because of the virus outbreak has made it even worse. Provision estimated the center’s cash deficit after debt service for 2020 will be negative $16.9 million, a $6.5 million increase from 2019.

Transportation

Virgin Trains USA, which runs a passenger railroad in Florida, issued a combined $2.7 billion in municipal bonds in 2019 to fund its extension to Orlando, a crucial step in its effort to turn a profit. It temporarily shut down after tourists and business travelers disappeared virtually overnight. In a disclosure document to bond holders the company said they plan to “monitor the situation” to decide when to reopen, maintaining that the construction work on the new leg is continuing on schedule. Ben Porritt, a spokesperson for Virgin Trains, declined to provide additional comment.

The Las Vegas Monorail, which has already gone bankrupt once, asked for bondholders’ consent to use cash in reserves for operations and to temporarily suspend required payments to those funds, according to a letter dated April 3. The Monorail indefinitely suspended service on March 18.

Bloomberg Markets

By Danielle Moran

April 17, 2020, 5:44 AM PDT Updated on April 17, 2020, 7:09 AM PDT

— With assistance by Amanda Albright, and Romy Varghese

BofA Gets States That Want to Borrow Now Rather Than Wait on Fed.

- **Hawaii, Rhode Island and Massachusetts working with the bank**
- **Governments are facing big shortfalls due to economic collapse**

Some states aren’t waiting on the Federal Reserve to help with the historic hits to their budgets. Instead, they’re working with a lender that they have a much longer history with: Bank of America Corp.

At least three — Hawaii, Massachusetts and Rhode Island — have taken steps to borrow from the bank to cover temporary cash shortfalls as the shut down of broad swaths of the economy crimps their tax revenues.

On Wednesday, Hawaii disclosed in a regulatory filing that Bank of America would purchase $600 million in general-obligation bond anticipation notes, the same type of debt that the Fed will purchase in its first ever move into the $3.9 trillion municipal-bond market. Massachusetts Treasurer Deb Goldberg is considering taking out a loan of about $1 billion from Bank of America and other banks. At the end of March, before the Fed announced its lending program, Rhode Island also entered into a $150 million note purchase agreement with Bank of America, according to a regulatory filing.

The moves come as states and cities are bracing for what may be the biggest fiscal crisis they've seen in decades, with budget shortfalls expected to outstrip those brought on by the real-estate collapse that set off the last recession. Anticipating a surge in borrowing that could destabilize the municipal securities market, the Fed last week said it would extend as much as $500 billion of loans to states, Washington, D.C., and some of the most-populous cities and counties.

The central bank hasn't released details about the intricacies of the program, including how much it will charge for the loans, and Citigroup Inc. has estimated it could take weeks for the program to start dispensing funds.

Short-term yields surged in March, threatening access to capital
Municipal Market Analytics, an independent research firm, said in an April 13 report that it's seen a growing number of governments selling debt directly to banks or taking out lines of credit. It's an understandable and prudent move by states given that working with a bank is a fast way to get cash, said Matt Fabian, a partner at the firm.

"It also puts them at the front of the line of other issuers who might want to take out lines of credit later," he said.

For lenders like Bank of America, the biggest underwriter of municipal bonds, such loans will help them offset a steep drop in the pace of debt sales since the market was rattled by a record-setting sell-off as investors pulled billions from mutual funds. Even with the market rebounding, in part because of the Fed's moves, long-term bond sales this month have declined 40% from a year ago.

Goldberg, the treasurer of Massachusetts, told lawmakers that the state is in the "final stages" of securing a working capital borrowing facility with a syndicate of banks led by Bank of America. That will give the state flexibility to draw down funds as needed during a time of delayed revenues as the tax deadline is pushed back, she told lawmakers during a hearing on April 14.

Hawaii's taxable notes mature in October 2021 and yield 1.76%, according to terms included in the regulatory filing.

Bloomberg Markets

By Amanda Albright and Danielle Moran

April 16, 2020, 11:45 AM PDT

— With assistance by Shruti Singh

Budget Crises Make Mayors And Governors Say 'Show Me The Money!'

A much larger injection of funds to state and local governments is what's needed. Without hundreds of billions of additional funding, we risk a greater economic crisis, a prolonged public health emergency, and a worsening of inequality and misery.

In seemingly never-ending waves of bad economic news, the economic shocks caused by the pandemic are pounding state and local budgets. Calls are growing for a federal bailout, up to $500 billion by some estimates. Mayors and governors are like characters in the movie "Jerry McGuire," saying to the federal government, "show me the money!"

Unlike the federal government, states (and the cities they charter and oversee) can’t run deficits. We are now deep into annual budget seasons for cities and states, and the pandemic’s effects are driving revenue forecasts—and budget plans—sharply downward. The majority of states start their new fiscal year on July 1, and the bad news is hitting them hard. Essential services—garbage pickup, emergency medical services, police, public education, and health care—all are threatened.

Continue reading.

Forbes

by Richard McGahey

Apr 17, 2020

Counties Say Virus Relief Fund is Shorting Them by Billions.

The National Association of Counties is pushing to change federal guidelines for how the money will be distributed to states and larger-sized local governments.

The Treasury Department’s plan for divvying up billions of dollars in federal coronavirus relief between large counties and the cities within their borders isn’t fair and should be changed, a group that advocates on behalf of counties is arguing.

Treasury issued guidelines this week for how it will dole out $139 billion from the “Coronavirus Relief Fund,” a pot of money that is meant to assist state and local governments with covering costs tied to the pandemic. The relief fund was created under the broader, $2 trillion coronavirus aid package known as the “CARES Act,” which Congress approved last month.

The National Association of Counties says Treasury’s formula for dispensing the relief fund dollars favors cities at the expense of counties and channels money to state governments that should instead be controlled at the local level.

Continue reading.

Route Fifty

by Bill Lucia

APRIL 15, 2020

Prospect of Steep Service Cuts Looms as Virus Batters State and Local Budgets.

“The longer this persists, the deeper it will be for state and locals and state and local cutbacks,” one expert noted this week.

It’s a given at this point that the coronavirus is going to make a dent in state and local government budgets, with public officials and experts saying service and program cuts appear inevitable without some kind of federal bailout.

Information continued to emerge this week about the extent of the financial pressure that states and localities are facing and how they are managing it. Even before the pandemic hit, some state and local governments were dealing with tight finances or lagging economies. Now they're facing unplanned costs tied to the response, as well as depressed tax revenues because of the economic crash that the outbreak has caused.

States and local officials are advocating for billions of dollars in additional federal aid, on top of billions that Congress has allotted already. House Speaker Nancy Pelosi this week said that helping local governments offset lost revenues is "a very important piece" of discussions about a pending relief bill. But it's still unknown how much more money lawmakers will pony up, or what limits will be imposed on how that cash can be spent.

Continue reading.

Route Fifty

by Bill Lucia

APRIL 18, 2020

Fed's $500B Municipal Bond Buying Could Leave Out Cities with Large Black Populations.

KEY POINTS

- The Fed will spend $500B purchasing municipal bonds
- 35 cities with the highest black population do not qualify for this program
- Brookings notes this is an unintended consequence, not a racist intent

In an attempt to aid an economy rapidly collapsing under the weight of the COVID-19 pandemic, the Federal Reserve announced a move last week to purchase $500 billion worth of short-term bonds issued by states or counties with more than two million people, or cities with a population above one million. A Brookings Institution study of the plan reveals that it leaves out most cities with large black populations.

Researchers Aaron Klein and Camille Busette wrote that "None of the 35 most African American cities in America meets the Fed's criteria for direct assistance."

The researchers note that this seems to be unintentional, as the population requirements mean that just 10 cities and 15 counties in the United States have access to the Municipal Liquidity Facility (MLF). This would force those 35 cities to try to receive aid through their state government, injecting a dose of politicking into a situation that demands rapid broad-based assistance.

There is a very strong correlation between cities with large black populations and their inability to access the MLF, as Brookings finds that for "every 10 percent more Black the city's population, it is 10 percent less likely to qualify for the Fed's program." Additionally, the Fed is actually increasing the risk it is taking on with this municipal bond program, as the 10 largest cities in America have a lower average credit rating than the next largest 20 cities.

Brookings notes that the genesis for this dynamic lies in the Fed's admirable desire to push aid to cities and states as quickly as possible, not any clear racist intent. Large metropolitan areas like Boston, Pittsburgh, Atlanta, Baltimore, and Detroit do not qualify for this program, and zero cities or counties in Ohio, Florida or New Jersey (America's densest state) reach the very high population bar set to qualify for access to the MLF.

International Business Times

By Jacob Weindling

04/15/20 AT 11:34 AM

NABL: Federal Reserve Accepting Comments on Municipal Liquidity Facility.

As the Federal Reserve prepares to launch the Municipal Liquidity Facility, it is considering comments submitted by the public. As a reminder, the Municipal Liquidity Facility is an initiative by the Federal Reserve to provide up to $500 billion of credit to state and local governments that have seen their revenues collapse during the COVID-19 coronavirus crisis.

Submit a Comment: To submit a comment about the Municipal Liquidity Facility for consideration by the Federal Reserve, please use the portal here. NABL is considering submitting comments and we encourage our members to submit your individual comments as well.

Note, the portal for the Municipal Liquidity Facility is expected to stay open until April 16, 2020, so we encourage you to submit soon.

FAQs: Additionally, the Federal Reserve is developing a Frequently Asked Questions (FAQ) document that will be available shortly.

More information about the Municipal Liquidity Facility can be found at the link here and below:

- The Federal Reserve has established the Municipal Liquidity Facility to help state and local governments manage cash flow pressures in order to continue to serve households and businesses in their communities.
- The facility will purchase up to $500 billion of short term notes directly from U.S. states (including the District of Columbia), U.S. counties with a population of at least two million residents, and U.S. cities with a population of at least one million residents.
- Eligible state-level issuers may use the proceeds to support additional counties and cities.
- In addition to the actions described above, the Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

Helpful Links:

Municipal Liquidity Facility term sheet.
Press Release related to additional actions to provide up to $2.3 trillion in loans to support the economy.

Milliman Analysis: Public Pensions Hammered by COVID-19 Economic Volatility, Shedding $419 Billion in Market Value in Q1

Plans' funded ratio sinks to 66.0% in single largest quarterly drop in PPFI history

SEATTLE, April 16, 2020 /PRNewswire/ — Milliman, Inc., a premier global consulting and actuarial firm, today released the first quarter 2020 results of its Public Pension Funding Index (PPFI), which consists of the nation's 100 largest public defined benefit pension plans. During Q1 2020, the overall funded ratio for these plans suffered the single largest quarterly drop in the history of the PPFI, decreasing from 74.9% to 66.0% between Jan 1 and March 31. Economic volatility from the COVID-19 pandemic resulted in a $419 billion loss in the market value of assets for these pensions, which in aggregate experienced investment returns of -10.81% in Q1. Individual plans in the PPFI had estimated returns ranging from -17.41% to 4.76%.

"Coming off the heels of what was a stellar fourth quarter in 2019, the economic fallout from the COVID-19 pandemic has completely wiped out any public pension funding gains we saw last year," said Becky Sielman, author of the Milliman 100 Public Pension Funding Index. "While these pensions now have a long way to go to return to pre-pandemic funding levels, it's important to remember that most public pension plans use some sort of asset smoothing mechanism to dampen the impact of market gyrations. This gives plan sponsors some breathing space to explore and plan for how this market downturn will impact contributions."

Breaking down the plans by funded ratio, four plans now remain at 90% funded or higher, down from 20 the previous quarter. Meanwhile, at the lower end of the spectrum nine plans fell below the 60% funded mark, bringing the total number of plans under 60% to 35, up from just 26 at Q4 2019. The total pension liability (TPL) continues to grow and stood at an estimated $5.355 trillion at the end of Q1 2020, up from $5.313 trillion at the end of Q4 2019.

To view the Milliman 100 Public Pension Funding Index, go to http://www.milliman.com/ppfi/. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

Plunge in Convention Hotel Travel Puts Municipal Bonds at Risk.

The industry can withstand a downturn of a month or two, experts say, but a longer delay could hamper financing for projects in development.

Confinement and social distancing mandates are taking a toll on business travel as airlines cut flight schedules and long-distance meetings are held with teleconferencing services like Zoom, putting cities around the nation in a bind.

The plunge in business travel has cast a shadow over hotels that cater to conferences and conventions, which need a steady influx of travelers to survive. That, in turn, could crimp the budgets of cities that used bonds to finance the construction of the hotels with the hopes of attracting more visitors.

Experts say that the industry can withstand a downturn of a month or two, but that a longer delay could hamper financing for construction projects in development.

“The big question mark in this current environment is whether it is at all plausible that the cities will see a substantial increase” in convention demand, said Heywood T. Sanders, professor of public administration at the University of Texas at San Antonio.

“The coronavirus puts them behind the eight ball in many ways,” he said.

As much as 80 percent of the 2,500 business-to-business conventions that are held from March 1 to May 15 each year have been canceled, or are likely to be, costing upward of $3.6 billion in revenue for show organizers and as much as $22 billion in broader economic activity, according to projections by the Center for Exhibition Industry Research, a trade group in Dallas. Consequently, the upscale and luxury hotels across the United States that rely on these trade shows have closed.

The timing is especially vexing for new publicly funded convention hotels that were built to draw business travelers. The $367 million Loews Kansas City convention hotel in Missouri was supposed to open on April 2 and had already hired 340 of the roughly 450 employees it needed. But in mid-March, Loews announced that it would delay opening the 800-room property indefinitely. Kansas City provided financing incentives valued at about $166 million.

The $240 million, 600-room Hyatt Regency Portland at the Oregon Convention Center opened in December only to suspend operations in March. Hyatt officials declined to comment. The project included roughly $74 million in city and state incentives.

“Both of these properties were built on the assumption that a new convention hotel would induce a significant new convention demand,” said Mr. Sanders, a longtime skeptic of the convention growth projections that are often used to justify convention center and hotel construction.

The problem is cropping up across the nation. Many cities fully or partly finance the construction and operation of convention hotels to compete for events, often by using bonds backed by the hotel’s income, as well as revenue from hospitality and tourism taxes. Noting the collapse in conferences and forecasting a U.S. recession, S&P Global Ratings recently warned that it could lower the ratings of bonds supporting existing convention hotels in Denver and Austin, Texas. It also downgraded the rating of bonds backing Baltimore’s convention hotel.

Hotels that do convention business have suffered jarring setbacks in the past, particularly after the Sept. 11, 2001, attacks and the recessions in 2001 and late that decade, but never has the industry undergone such a sudden reversal of fortune, experts say. The American Hotel and Lodging Association estimates that nearly four million workers across all hotel segments have been furloughed or soon will be. Employees in more labor-intensive upscale hotels that include restaurants, bars and banquet facilities make up a good chunk of those idled.

“Hotel business went from 100 to zero — everybody was traveling the week of March 9, and the next week they weren’t,” said Elliot K. Eichner, a founder and principal of Sonnenblick-Eichner, a Los Angeles commercial real estate investment bank that arranges financing for hotels, resorts and other properties. “We’re now hoping that it goes from zero to 100 once we get a handle on this virus.”

As in past tumultuous periods, the so-called upper upscale and luxury hotels that typically serve conventioneers and business travelers are being hit the hardest during the pandemic, said Jamie Lane, senior managing economist for CBRE Hotels Research in the Americas.

The average occupancy rate in those categories plunged to just below 10 percent in the last week of March from around 70 percent for February, according to STR, a global hospitality data analytics firm. And revenue per available room, a key measure of hotel profitability, plummeted more than 90 percent, STR found.

Social-distancing measures have generated uncertainty in the development of new hotels, too, even as many states allow construction to continue. S&P Global Ratings recently warned that $152 million in bonds sold to finance the 463-room expansion of the Hilton Columbus Downtown hotel in Ohio could be downgraded. Workers broke ground on that $220 million project late last year, anticipating a mid-2022 completion.

How the virus could affect projects in the pipeline remains to be seen. But unknowns over when travel will resume — and how strongly it will recover — could make lenders and bond buyers reluctant to finance convention properties, experts acknowledge.

“As of now, we’re anticipating a downturn for two quarters,” Mr. Lane said. “But if it’s longer than that, we could see some projects get postponed or canceled.”

Projects on the horizon include a $550 million, 880-room Loews hotel in Arlington, Texas, which is part of a plan to attract more conferences to the city’s Texas Live entertainment district. In March, Fort Worth approved a $174 million, 400-room expansion of the Omni Fort Worth and agreed to $40 million in incentives.

According to Omni Hotels & Resorts, construction of the hotel in Fort Worth will not begin until late 2021. The company also said that coronavirus regulations had halted construction of its $550 million, 1,054-room hotel in Boston’s Seaport district, but that construction continued at the company’s $241 million, 605-room Oklahoma City convention hotel. Both properties were scheduled to open early next year.

The transient nature of guests generally poses the biggest challenge to hotel financing, and the coronavirus crisis has only intensified it, said Anne R. Lloyd-Jones, a senior managing director with HVS, a global hospitality consultant. Multiyear leases usually provide office, warehouse and shopping center landlords with a cushion to ride out turbulence, but hotels essentially renew their leases with their customers every day.

“There is no guarantee that someone is going to replace a hotel visitor that is here today and gone tomorrow, and where we are today underscores that element,” Ms. Lloyd-Jones said. “Lenders have been pretty disciplined, and they will approach any new development with caution.”

Conference and convention hotels that are able to open this year could see a silver lining. The Lake House on Canandaigua, a $48.5 million hotel and convention center project in New York’s Finger Lakes region, has been receiving inquiries from groups that postponed events but could not reschedule them at the same place, said William Caleo, the hotel’s owner. The project was on track to open in August despite the uncertain future. A recent order by Gov. Andrew M. Cuomo of New York halted construction, however, further muddying any semblance of even cautious optimism.

“Pent-up demand has presented a real opportunity for us to fill a void, and I’m hoping that we can accommodate everybody,” said Mr. Caleo, a developer of boutique condominiums in Brooklyn. “But when will people be convening in groups larger than 10? Nobody knows.”

And as professionals adapt to virtual meetings, the need to travel to some conferences is being questioned. But industry experts play down the extent to which groups would use the alternatives, especially given the economic impact that conventions and conferences have on their organizations and local markets.

Additionally, studies conducted by the Center for Exhibition Industry Research have consistently placed value on face-to-face meetings, said Cathy Breden, chief executive of the organization.

After the SARS outbreak decimated Toronto's hospitality industry in 2003, travel came back just as strong the next year, Mr. Lane of CBRE said.

"Over all, business and leisure travel were at peak levels before the current pandemic, and we don't see that changing over the long term," he said. "The industry will get through it, just as it has gotten through many major issues in the past."

The New York Times

By Joe Gose

April 14, 2020

Coronavirus: Gauging the Impact of Economic Dislocation on U.S. State Tax Revenues (Comparing Differences Between States and Incorporating the Impact into Ratings)

Read the Fitch Special Report.

Fri 17 Apr, 2020 – 3:47 PM ET

S&P: Tax Filing Extensions Create Liquidity Issues For U.S. States

Key Takeaways

- Every state that levies an income tax has adjusted the tax filing date.
- With 25 states receiving more than 50% of operating revenues from income taxes, any interruption could be meaningful.
- The full extent of lost revenues will not be known for months, but will be felt in state budgets for years.

Postponement of state April 15 income tax filing deadlines, announced by every state that imposes an income tax, creates a temporary deferral of revenue that for at least some states is likely to be near in magnitude to the separate amount of potential permanent tax loss caused by the pandemic related economic slowdown. Unfortunately, this will create additional problems for state liquidity, creating uncertainty and challenges in revising fiscal 2020 and 2021 revenue forecasts, as separating out temporary income tax deferrals compared to the permanent loss due to economic activity will be difficult.

Primarily derived from the calendar year 2019 tax filing period, fiscal 2020 income tax payments are not likely to change much, aside from the time of receipt. However, receipts in the three remaining months of most states' fiscal 2020 will not be immune to recessionary pressures, as the monthly wage withholding receipts will be reduced in the current fiscal year due to the sudden spike in unemployment induced by the social distancing measures throughout the economy. The full effect of the permanent loss of income tax revenue collections caused by the recession will not be known for months, but will primarily be reflected in fiscal 2021.

Continue reading.

Fitch U.S. Public Finance First-Quarter 2020 Rating Actions.

Link to Fitch Ratings' Report(s): U.S. Public Finance Rating Actions Report & Sector Updates: First-Quarter 2020

Fitch Ratings-New York-09 April 2020: Overall Ratings Stability with Upgrades Outpacing Downgrades
In 1Q20, Fitch Ratings upgraded 18 U.S. public finance ratings and downgraded 12 compared to 54 upgrades and 35 downgrades in 4Q19. Annual upgrades have exceeded downgrades for the sixth year since 2008. Upgrades represented approximately 2.2% of all rating actions in 1Q20, while downgrades represented approximately 1.5%.

Outlooks Trend Mixed with Increase in Negative Watches
There were 92 Positive Rating Outlooks and Watches and 126 Negative Rating Outlooks and Watches in the portfolio as of quarter-end 1Q 20 compared to 93 and 105, respectively, in 4Q19. The increase in Negative Watches was partially driven by coronavirus-related reasons. Positive Rating Outlooks and Watches accounted for approximately 3.2% of the U.S. public finance portfolio and Negative Rating Outlooks and Watches represented 4.3%.

Coronavirus Impact
As of 1Q20 quarter end, Fitch had placed one state rating (Alaska) and 13 local government ratings on Rating Watch Negative due to coronavirus-related credit impacts. Unprecedented effects of the coronavirus on the economy and operating environments will continue to create downward rating pressure throughout 2020, especially for the tax-supported, healthcare and higher education sectors. Fitch will continue to monitor the rapidly evolving situation with additional rating actions and analysis.

Criteria News
Fitch released its updated criteria for housing finance agencies in February 2020 and its finalized criteria for affordable housing in March 2020. Finalized tax-supported criteria were released in January 2020 and revisions to Fitch's tax-supported, revenue-supported, public power and colleges and universities criteria were published in March 2020.

"U.S. Public Finance Rating Actions Report & Sector Updates: First-Quarter 2020" is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com.

S&P: How The U.S. Municipal Housing Sector Is Bracing For COVID-19 Related Impact

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- COVID-19 Financial Impacts Wash Over The U.S. Economy
- CARES Act
- HFAs
- CDFIs
- PHAs
- Affordable Multifamily Properties
- Federally Subsidized Affordable Multifamily Properties And Military Housing

Key Takeaways

- The sudden economic stop has created a backdrop of uncertainty and volatility.
- Unemployment, coupled with eviction and mortgage foreclosure moratoriums, will stress the housing sector, particularly housing finance agencies (HFAs) and stand-alone multifamily properties.
- Age restricted properties in particular could face pressure on net operating income due to extended vacancies and higher expenses from the pandemic.
- Liquidity will be key to navigating through any interruption or decrease in revenues for HFAs, community development financial institutions (CDFIs), and multifamily property owners.

Continue reading.

S&P Outlooks On Four U.S. Muni Retail Electric, Gas Utilities And Electric Coop Utilities Revised To Stable From Positive

NEW YORK (S&P Global Ratings) April 16, 2020–S&P Global Ratings today revised the outlooks on certain long-term debt ratings in the U.S. Public Utilities sector to stable from positive. S&P Global Ratings has affirmed the ratings and revised the outlooks to stable from positive on the following public utilities: Bryan Texas Utilities (BTU) electric system, Garland Power & Light (GP&L) electric system (both in Texas), Georgia Transmission Corp. (GTC), and Southern Illinois Power Cooperative (SIPC).

The outlook revisions to stable from positive of each issuer follows our updated overall view of the Public Utilities sector due to the COVID-19 pandemic. We believe credit quality among U.S. municipal retail electric and gas utilities and electric cooperative utilities will be pressured, as these utilities are increasingly vulnerable to the potential economic effects of the pandemic. In our view, widespread efforts to stem the spread of COVID-19 and protect the population’s health and safety, which we view as a social risk under our environmental, social, and governance (ESG) factors, could lead to budgetary challenges and pressure cash flows and liquidity.

The stable outlooks reflect our view that each utility will be able maintain its current rating despite the challenges presented by COVID-19. Specifically, we believe that each utility's revenue stream is primarily residential and provides a more predictable revenue stream compared to utilities with significant commercial and industrial revenue concentration. Other factors that support the stable outlook include each utility's robust liquidity position that can help cushion the effects of budget variances. In addition, the cooperative utilities benefit from serving extremely diverse revenue streams across numerous counties.

Continue reading.

S&P U.S. State Ratings And Outlooks: Current List

View the list.

S&P History Of U.S. State Ratings.

View the list.

S&P: Outlook Revised To Stable From Positive On Tax-Secured Debt Ratings Of Local Governments On Deep Economic Contraction

CENTENNIAL (S&P Global Ratings) April 17, 2020–S&P Global Ratings revised its outlook to stable from positive on certain long-term and underlying ratings on local governments with outstanding tax-secured debt due to heightened risks on various credit factors caused by the COVID-19 pandemic and related recession (see list below).

The outlook revisions to stable from positive reflect our view that previous upward momentum will likely be stunted by the broad challenges facing these organizations due to the COVID-19 pandemic and recession. While we no longer think a higher rating is likely during the outlook period, we consider these local governments' ratings stable at this time. A stable outlook reflects our view that the rating is unlikely to change during the outlook period, which is up to two years.

As described in our article, "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect, the recession's trajectory is much deeper and faster than previously anticipated. S&P Global Economics now projects that the U.S. GDP will contract by 5.3% in 2020. Though we expect the economy will begin to recover in the second half of 2020, we anticipate that the recovery will be gradual and constrained by some form of continued social distancing as fears persist over the continued spread of COVID-19. Given this rapid and severe economic shock, we believe upward rating movement is unlikely over the intermediate term.

Continue reading.

S&P: Outlook Revised To Stable From Positive On Eight Affordable Housing Issues Due To Pandemic Uncertainty

NEW YORK (S&P Global Ratings) April 14, 2020–S&P Global Ratings revised the outlooks on 13 long-term ratings associated with eight affordable multifamily housing transactions to stable from positive.

The revised outlooks follow our updated assessment that U.S. unemployment could approach 20 million by May, due to government measures to mitigate the community spread of COVID-19.

We view uncertainty regarding the timing and duration of the spread of the virus throughout the country as a health and safety social risk under our environmental, social, and governance factors.

Continue reading.

S&P Criteria | Governments | U.S. Public Finance: Methodology For Rating U.S. Public Finance Rental Housing Bonds

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OVERVIEW AND SCOPE

1. These criteria outline S&P Global Ratings' methodology for rating bonds backed by rental income from residential properties that serve a public purpose in the U.S. (rental housing bonds). All terms followed by an asterisk are defined in the glossary (see Appendix A). We intend the methodology to be read in conjunction with the related guidance (see "Guidance: Methodology For Rating U.S. Public Finance Rental Housing Bonds," April 15, 2020).

2. In particular, our definition of rental housing bonds includes bonds backed by revenues from:

- Affordable multifamily housing* (including mobile home parks);
- Age-restricted independent* or assisted-living* rental housing;

- Privatized military housing*; and
- Pools* of loans secured by affordable multifamily housing.

3. The methodology does not apply to:

- Continuing care retirement communities (CCRCs) or multifacility organizations where CCRCs comprise the majority of the organization. These organizations are operating entities, and require a different approach to the project-based framework described in this methodology. They are rated based on “Senior Living” criteria, published June 18, 2007;
- Securitizations backed by multifamily properties where the provision of affordable housing is not a primary driver of the development, which are rated under “Rating Methodology And Assumptions For U.S. And Canadian CMBS,” published Sept. 5, 2012; and
- Federally enhanced housing bonds (FEH bonds) (housing bonds where full credit enhancement from U.S. federal government agencies is available on the mortgage loans, mortgage-backed securities, or directly on the FEH bonds), which are rated under “U.S. Federally Enhanced Housing Bonds Rating Methodology” published Nov. 12, 2019.

Continue reading. (Registration required.)

S&P Guidance | Criteria | Governments | U.S. Public Finance: Methodology For Rating U.S. Public Finance Rental Housing Bonds

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  Multifamily Loan Pools
  Privatized Military Housing
- RELATED CRITERIA AND RESEARCH

OVERVIEW AND SCOPE

1. This document provides additional information and guidance related to our criteria, “Methodology For Rating U.S. Public Finance Rental Housing Bonds,” published April 15, 2020. It is intended to be read in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article.

2. The first section includes general guidance applicable across all transaction types in scope of the criteria. Subsequent sections provide further detail on the specific application of the methodology to each property or transaction type. In particular, we detail the application of the adjustment in our coverage and liquidity reserves assessment to reflect our expectation of stability or volatility of net cash flows (hereinafter, the “volatility adjustment”). We also explain the relative importance of different sub-factors in our management and governance and market position assessments.

Continue reading.

S&P RFC Process Summary: Methodology For Rating U.S. Public Finance Rental Housing Bonds

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- Written Comments Received From Market Participants That Did Not Lead To Significant Analytical Changes To The Final Criteria
- Other Substantive Feedback Received From Market Participants That Led To Significant Analytical Changes To The Final Criteria
- Significant Analytical Changes To The Final Criteria That Did Not Arise From Feedback Received From Market Participants
- Significant Changes To The Guidance Document

On Nov. 4, 2019, S&P Global Ratings published a request for comment (RFC) on its proposed revisions to the approach it uses to rate U.S. Public Finance Rental Housing Bonds.

Following feedback from market participants, we finalized and published our criteria, titled "Methodology For Rating U.S. Public Finance Rental Housing Bonds," on April 15, 2020. We also finalized and published the guidance article "Guidance: Methodology For Rating U.S. Public Finance Rental Housing Bonds," to explain how we apply the final criteria. This guidance article is not criteria, but it is intended to be read in conjunction with the final criteria. For further information regarding guidance documents, please see "Criteria And Guidance: Understanding the Difference," published Dec. 15, 2017.

We'd like to thank investors, issuers, and other intermediaries who provided feedback. This RFC Process Summary provides an overview of the written comments and certain other feedback we received from the market on the proposed criteria, the significant analytical changes we made to the proposed criteria following the RFC period, and the rationale for those changes.

Continue reading.

S&P: Certain U.S. Rental Housing Bonds Ratings Placed Under Criteria Observation Following Criteria Revision

FARMERS BRANCH (S&P Global Ratings) April 15, 2020–S&P Global Ratings today added its under criteria observation (UCO) identifier to certain U.S rental housing bond transactions. These ratings have the "UCO" label in the Regulatory Identifier column on the individual transaction pages of S&P Global Ratings online credit rating products. The UCO identifier indicates a rating that could be affected by a published change in criteria (see "Standard & Poor's Announces "Under Criteria Observation" Identifier For Ratings Potentially Affected By Criteria Changes," published May 7, 2013).

On April 15, 2020, we published our "Methodology For Rating U.S. Public Finance Rental Housing

Bonds.” The criteria became effective immediately upon publication.

The UCO identifier will remain in place until the conclusion of the review under the changed criteria for all of the affected ratings, at which time the ratings may be affirmed, changed, or placed on CreditWatch. The UCO identifier does not modify any rating definition, nor is it equivalent to a CreditWatch placement. S&P Global Ratings expects to review the ratings identified as UCO within six months of the criteria’s effective date.

Continue reading.

S&P Credit FAQ: How S&P Global Ratings' Revised Criteria Look At U.S. Public Finance Rental Housing Bonds

Frequently Asked Questions

Why is S&P Global Ratings publishing new criteria at a time when the COVID-19 pandemic is creating substantial uncertainty across all sectors?

We are monitoring the impact of COVID-19 on rental housing bonds and believe that the new criteria provides a better framework to capture any resulting developments in our ratings. In particular, relative to our previous criteria we believe that the revised criteria better captures emerging instability and the volatility in cash flows that rental properties may experience as a result of COVID-19 and future exogenous events.

How will S&P Global Ratings apply the revised criteria to reflect developments related to the COVID-19 pandemic in its ratings on rental housing bonds?

In comparison to the previous criteria, the revised criteria include a tighter calibration of debt service coverage ratio bands used to arrive at the initial coverage assessment, and the ability to adjust the initial coverage assessment to account for an expectation of deteriorating financial performance or volatility risks for a particular development or type of property. We believe that these changes will allow us to better differentiate our ratings on the basis of credits’ relative sensitivity to emerging volatility risks, and to do so in a manner more timely than under our previous criteria.

Why did S&P Global Ratings remove privatized student housing transactions from the scope of the final criteria?

We have removed from the scope of the proposed criteria privatized student housing transactions, which are currently analyzed under separate criteria. We did not expect significant rating impact from the criteria revision for these credits. However, the COVID-19 crisis has had a significant and immediate impact for these credits. On March 25, we revised our outlook to negative on all U.S. higher education privatized (off balance sheet) student housing projects in the wake of the COVID-19 pandemic and the uncertainties surrounding the ultimate economic fallout. This affected 63 ratings (see “U.S. Higher Education Privatized Student Housing Projects Outlook Revised To Negative On Potential COVID-19 Impact,” published March 25, 2020).

What types of issues are still in scope?

Ratings on bonds backed by rental income from residential properties that serve a public purpose:

- Affordable housing (including mobile home parks);
- Age-restricted independent or assisted-living rental housing;
- Privatized military housing; and
- Pools of loans secured by affordable multifamily housing.

What are the primary new features of the criteria?

- We are increasing the importance of debt service coverage in our overall assessment of credit quality by weighting the coverage and liquidity factor at 50% of the anchor.
- We are also introducing new adjustments to account for cash flow volatility and liquidity risks that better capture forward-looking financial performance.
- We are revising the debt service coverage bands, requiring a higher level of coverage at the lower end of the range.
- Our assessment of management includes a broader, more flexible and qualitative evaluation of management's operational effectiveness with less reliance on portfolio size and years of experience.
- For stand-alone transactions we have shifted the focus of our analysis of financial strength to borrower default risk through the coverage and liquidity factor assessment from liquidation value assessed through S&P Global Ratings-calculated loan-to-value derived through application of our Commercial Mortgage Backed Securities (CMBS) criteria.
- We will adjust downward to equalize ratings on all but the most junior tranche in transactions that include structural features that diminish or eliminate the benefits priority of payment to senior bondholders, such as a springing lien provision.

Which sectors are expected to be affected by this new criteria?

We have published a list of 110 ratings that will be put under criteria observation for review (see "Certain U.S. Rental Housing Bonds Ratings Placed Under Criteria Observation Following Criteria Revision") within the next six months. The list primarily includes unenhanced affordable housing transactions, and age-restricted housing. We recently revised the outlook to negative for 16 affordable senior housing ratings, resulting in all ratings in the subsector having a negative outlook or on CreditWatch (two ratings) due to concerns regarding the COVID-19 pandemic and its near term effect on occupancy and increasing expenses. More about the outlook change can be found here.

This report does not constitute a rating action.

Nuveen Accused Of 'Threats And Lies' - Which Is Why NEA And Its Municipal Bond CEFs Are Great.

Summary

- Nuveen has recently lost a court case accusing it of disrupting a competitor's business.
- Paradoxically, them losing this court case is a very bullish signal for Nuveen's muni bond CEFs.
- Understanding this story can help retail investors understand why muni bond CEFs are superior to buying individual muni bonds.

An interesting lawsuit in the municipal bond market has uncovered exactly how and why many debt CEFs can crush their indexes, and why this fact is likely to remain true for a long while to come.

The story revolves around Nuveen Asset Management and its attempts to get all of the major investment banks in America to not do business with an upstart that was disrupting Nuveen's business model as it functions in the muni bond world.

Understanding the details of this case is critical for understanding why CEFs are a much, much better vehicle for buying municipal bonds (as well as several other assets). But in addition, this case is really interesting, as it uncovers some of the tricks of the trade that asset managers use to win.

Continue reading.

Seeking Alpha

by Michael Foster

Apr. 14, 2020

Bonds Started to Falter. Then, the Fed Came to the Rescue.

Core bond funds have made money for investors, but it has been anything but an effortless ride.

When seen from a distance, core bond funds lately have had the deceptive appearance of ducks serenely gliding along the waters' surface.

They've made money for investors. The largest bond mutual fund and exchange-traded fund — the Vanguard Total Bond Market Index Fund and the iShares Core U.S. Aggregate Bond E.T.F. — both gained more than 2 percent for the first three months of the year.

But that belies a two-week period in March when every corner of the bond market was furiously paddling to stay afloat. It's worth looking closely at what happened, to be prepared for the possibility of further shocks in the future.

Continue reading.

The New York Times

By Carla Fried

April 16, 2020

Rich Muni Buyers Piled In During Record Crash, Reaping Big Gains.

- **Citi says net buying by individuals hit $920 mln on March 20**
- **Bank says it was the biggest such buying spree since 2008**

When the little guys were fleeing for the exits of the municipal-bond market, it appears that the rich were piling in.

On March 20, at the height of the worst sell-off in at least four decades, purchases of state and local government bonds with maturities of at least 2 years and in blocks of $1 million of less — a proxy for buying by wealthy individual investors — exceeded sales by $920 million, according to Citigroup Inc. Such buying hadn't outpaced selling by that much since the credit crisis of 2008, the bank said.

"It was almost off the charts in terms of retail net buying," said John Heppolette, Citigroup's head of municipal markets and finance. "We've seen it in each of the past crises, as bond funds and other investors sell, munis get cheaper, and eventually high net worth comes in opportunistically."

The fear-driven crash provided brave investors a rare chance to scoop up even the safest tax-exempt bonds at unusually low prices, locking in higher yields until maturity.

In the midst of the sell-off, 5-year AAA rated bonds were yielding 6.5 times more than comparable Treasuries. New York City water authority bonds, callable in 7 years with a AA+ rating, were sold to a customer at a 4% yield — 3.5 percentage points more than five-year federal government debt. Metropolitan Transportation Authority bonds backed by Treasuries maturing in 2027 traded at a 2.4% yield, 2 percentage point more.

"All of a sudden they saw rates on individual bonds that they probably aren't going to see in years," said John Bagley, the Municipal Securities Rulemaking Board's chief market structure officer.

The steep price drops were set off by an unprecedented stampede out of municipal-bond mutual funds, which saw almost $40 billion withdrawn in two weeks in March alone, according to the Investment Company Institute's figures. With fund managers forced to dump securities to raise cash, yields on 10-year benchmark municipal bonds surged by nearly a full percentage point in two days, an extremely large jump for securities that typically move a few basis points a day if at all.

Less well-off mutual-fund investors tend to focus on share prices and sell as a group when prices fall. They're also sensitive to what analysts call headline risk, or bad news stories that undermine the market's perception as a haven.

Wealthy investors who buy individual bonds for their own accounts may be less likely to sell since they tend to focus on a bond's coupon and getting their principal back at maturity, Bagley said.

In addition to purchases through brokers and wealth managers, the March buying shows how so-called separately managed accounts, which typically require an initial investment of $250,000 or more, are exerting more sway in the municipal market. There was an estimated $700 billion in such tailored accounts at the end of 2019, according to Citigroup, helping to make up for weaker demand from banks and insurance companies.

The buying last month has provided an immediate payoff, with prices surging back since Congress passed the $2.2 trillion stimulus plan and the Federal Reserve moved into parts of the municipal market to help ease the liquidity crunch.

The overall market has gained more than 8% since March 20, according to the Bloomberg Barclays index. But many bonds did even better. The New York water securities have since soared 16% from their low.

Bloomberg Markets

By Martin Z Braun

April 16, 2020, 7:18 AM PDT

Public Banking Would Help Speed the Economic Recovery from COVID-19.

At least 90 percent of the nation's cities are facing a budget crisis because of the economic shutdown in response to the COVID-19 pandemic, according to a mid-April report by the U.S. Conference of Mayors and the National League of Cities. Because municipal governments cannot run deficits, they will have to respond by cutting staff and programs, which will worsen the economic conditions of the cities they serve.

If cities had public banks, they would be much better equipped to deal with these budget shortfalls and maintain the services and staff most vital to their economic recovery. That's why state and local political leaders should use emergency powers to rapidly create public banks that can serve as key engines of a just and sustainable economic recovery.

Public banks are new to most of us in America, but they have been a proven institution globally for the past few hundred years. The one place in America where public banking is not new is North Dakota, where the 100-year-old Bank of North Dakota is widely credited with helping the state's economy weather the 2008 recession far better than other states.

Continue reading.

THE HILL

BY ISAIAH POOLE AND RICK GIRLING, OPINION CONTRIBUTORS — 04/17/20 06:30 PM EDT

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

Deriving Maximum Benefit from Rural Opportunity Zones

The establishment of Opportunity Zones was intended to encourage long-term investments in underserved, low-income communities by establishing a way to reduce an investor's capital gains.

The 2017 Tax Cuts and Jobs Act allowed state governors to nominate census tracts as Opportunity Zones, with up to 25% of a state's low-income census tracts to be eligible for designation. Indiana Governor Eric Holcomb nominated 156 census tracts as Opportunity Zones, which were a mix of underserved urban and rural tracts across the state. Investors interested in taking advantage of the Opportunity Zone tax break must do so through a qualified "Opportunity Zone Fund" investment.

The Treasury Department recently finalized Opportunity Zone regulations and many investors have set up qualified Opportunity Zone funds to take advantage of the legislation. Most of these funds are set up to invest in traditional residential and commercial real estate opportunities by refurbishing or rebuilding low-income properties in underserved communities.

This standard model of real estate investment in underserved communities presupposes that most of the investments occur in urban areas where increases in rental income can be offset by larger, more affluent populations. Investors in these properties will manage the property for ten years and then look to sell them, capturing any incremental gain on the post-acquisition economic appreciation. This type of capital gain will be tax free.

However, this investment model does not work well in underserved, rural areas where the population is disbursed over a large area. In these circumstances, revenues from an improvement of a single property will not significantly, nor beneficially, move the needle on property tax revenues. These communities require sizable investments from external capital sources to grow the local tax base immediately and over the long-term. Opportunity Zones in rural communities are now best positioned to add sizable industrial and infrastructure projects to their portfolios.

Currently, rural Opportunity Zone areas have been the target of warehouses, distribution centers, wafer manufacturers, plastic recycling plants, and other similar commercial and industrial projects. However, the future of rural Opportunity Zone development lies within the solar energy infrastructure industry. Solar panel farms in underserved, rural Opportunity Zones offer an attractive package of economic development, significant increases in local property tax base, direct payments to landowners above "farming margin," lower electricity costs to all ratepayers, and reductions in environmental issues.

With these important benefits in combination with stackable federal tax benefits (e.g. Investment Tax Credits and Bonus depreciation), solar panel farms can provide the next generation of Hoosiers with a low-cost, long-term energy solution that will improve the economies and environmental health of rural communities throughout the state of Indiana.

Inside Indiana Business

By Tim O'Hara, Managing Director, Energy Systems Network

Thursday, April 9th 2020, 10:19 AM EDT

The Case for Adequate Public Transportation Funding During the COVID-19 Pandemic: Nossaman

In his Infra Insight Blog post on April 9, Frank Liu reported on the uncertain status of the long awaited federal infrastructure bill. As the federal deficit balloons and election season intensifies, the likelihood of prompt Congressional action on a major infrastructure bill is diminishing. All indications are that it will be sidelined as Congress works on a "Phase 4" coronavirus relief bill to ameliorate the unprecedented loss of jobs throughout the nation and provide further direct assistance to the business community. The Phase 4 bill also should include ample stop gap … Continue

By Fredric Kessler on 04.15.2020

Nossaman LLP

U.S. Public Finance and Infrastructure: Coronavirus Response So Far

Read the Fitch Report.

Wed 15 Apr, 2020

GFOA: Utility Outreach to Congress Key to Inclusion of Water Funding in Future Stimulus Legislation

GFOA, NACWA and our partners in the water sector, are closely engaged with Congress to ensure that future stimulus legislation in response to the COVID-19 pandemic includes assistance to public clean water utilities. Members of Congress, however, need to hear directly from water utility stakeholders to outline specific challenges. GFOA encourages utility stakeholders to use this template letter to write your federal House and Senate delegations to urge additional federal support to the water sector.

While the timing and makeup of the next stimulus package remains unclear, assistance to the water sector is actively in play in both the House and Senate in large part due to the Congressional advocacy of our water utility partners who have helped lay the groundwork. ***But it is critical all members consistently and continuously reach out to their congressional delegations to ensure inclusion.***

Key congressional staff have continued to emphasize the need for public utilities to reach out to their respective Senators and Representatives and provide them with facts and figures on the direct economic impacts they are incurring or expect to incur as a result of the coronavirus pandemic.

According to a conservative estimate by NACWA, revenue shortfalls to the public clean water sector is approximately $12.5 billion, which assumes a 20% annual revenue loss. This estimate has been helpful in elevating the economic needs of the clean water sector to Congress, as has the growing media attention around the issue.

Going forward, individual utility outreach, especially to key members of Congressional leadership and committees, is critical to ensuring the sector's economic needs are met in any further stimulus legislation, both for low income household assistance programs and industrial and business revenue loses.

For more information on assisting low-income water utility customers, see the American Water Works Association's (AWWA) report, Thinking Outside the Bill: A Utility Managers Guide to Assisting Low-Income Water Customers.

BDA Submits Municipal Note Guarantee Recommendation to Fed.

Today, the BDA submitted a one-pager to the Fed in response to the recent announcement of the Municipal Liquidity Facility stemming from passage of the CARES Act. In the one-pager the BDA calls on the Fed to create a Note Guarantee Program for State and Local Governments.

The Municipal Guarantee recommendation can be viewed here.

Municipal Note Guarantee Recommendation

The recommendation is a response to initial outline of the Municipal Liquidity Facility announced yesterday. In the one-pager the BDA calls on the Fed to create a Note Guarantee Program for State and Local Governments.

The BDA calls on the Fed to develop a program that will:

- Provide credit guarantees to issuers who sell TANs and RANs with maturities up to 12 months during the duration of the program;
- Provide a credit backstop similar to a bank Letter of Credit to any investment-grade issuer who met reasonable requirements; and
- If the issuer failed to retire TANs or RANs covered by the facility on time, the Fed would advance the par amount to investors and would become the creditor to the state or local government.

Bond Dealers of America

April 10, 2020

GFOA Fiscal First Aid Resource Center.

A financial crisis can take many forms:

- A major local employer lays off much of its workforce.
- Property values plummet due to a shrinking population in the area.
- A natural disaster inflicts significant infrastructure damage.
- A mass-quarantine halts economic activity.
- A cyberattack shuts down online commerce.

Any of these events would likely cause significant financial distress for even the best-prepared local governments. Whether they lead to increased expenditures, decreased revenue, or a combination of both, the effect is the same: the local government finds itself without enough money to do everything that people expect it to get done. GFOA has put together this set of resources to help local government finance officers facing these types of situations. The centerpiece is a 12-step process we call **Fiscal First Aid: Recovering from Financial Distress**. Use the following diagram to navigate through the different steps of the financial recovery process.

12-Step Fiscal First Aid Recovery Process
Step 1: Recognition
Step 2: Mobilize
Step 3: Generic Treatments
Step 4: Initial Diagnosis
Step 5: Fiscal First Aid
Step 6: Detailed Diagnosis
Step 7: Recovery Plan
Step 8: Long-Term Treatments
Step 9: Long-Term Financial Planning
Step 10: Recovery Leadership
Step 11: Manage the Recovery Process
Step 12: The Outcome of Recovery

New GFOA Research
Working Remotely: A Guide for the Public Sector
Cash is King: Short-Term Strategies to Slow the Flow of Money Out the Door and Keep the Budget Balanced

Upcoming Training
April 13: Procurements Under FEMA Awards During Periods of Emergency or Exigency
April 15: Assessing Risks Related to Cyber Crime

Past Training
Click on each webinar to access a recording of the webinar, the PowerPoint presentation, and other supporting materials.

March 27, 2020. Financial Decision Making Under Uncertainty

April 1, 2020. Budgeting During a Recession: Principles, Practices, Processes, and Politics

April 8, 2020. Financial Scenario Planning: Visualizing and Strategizing for Uncertain Times

April 9, 2020. Take the 2020 Financial Policy Challenge

Free Limited-Time Offers from Third-Party Firms
In order to get as many good Fiscal First Aid resources to GFOA members as quickly as possible, GFOA is working with private sector firms that have graciously agreed to provide their expertise free of charge. Please be aware that there is no financial relationship between these firms and GFOA. Also, GFOA does not endorse any products or services.

Risk Assessments for Municipal GO and Revenue Debt Investors During Economic Downturn.

In the midst of COVID-19, the domestic and global financial market outlooks are grim and the collective blow to the markets highlight the convoluted nature of their dependency and interconnectedness.

This notion applies to all financial markets, both domestic and globally: municipal debt markets, corporate debt, equities, commodities, etc. Furthermore, the notion that fixed-income markets often see a surge in capital influx during market downturns and recessions – because fixed income is generally considered a safer option than other instruments – may not be entirely true, given that investors are skeptical of the overall performance of both private and public sectors. This is also because both debt and equity markets are heavily reliant on consumer spending, which has come to a considerable halt.

In this article, we'll take a closer look at whether the economic downturn will impact GO and revenue-backed municipal debt in a similar way, and we will also highlight key signs for investors to look out for within their municipal debt holdings in order to assess risk exposure.

Continue reading.

municipalbonds.com

by Jayden Sangha

Apr 08, 2020

When Can Bond Investors Lie to Banks?

The thing which is not

The usual way that municipal bonds get issued is that a city or state or agency or university or whatever calls up its investment bankers, and the investment bankers call up a bunch of muni investors and get them to put in orders to buy some of a new bond. Buying newly issued bonds is generally a good way to make a little extra money—muni bonds, like corporate bonds and stocks and most other things, tend to "pop" when they first start trading—so it is good for the investors to get these calls. On the other hand sometimes a new muni deal will struggle to find buyers, so it is good for the investment banks (and the municipalities) if the investors take these calls. It is a business of relationships: The banks like being able to call investors to place deals; the investors like getting the calls to buy lucrative new issues; everyone is better off if they stay friends and work well together.

Another, less usual way that municipal bonds sometimes get issued is that one investor calls up a city or state or agency or university or whatever, or its investment banker, and says "hey if you want to issue a new muni bond just sell all of it to us." For the issuer this approach—called a "100% placement"—might be faster or more certain or more convenient than the usual approach of having banks market the deal to a lot of potential buyers, but it might also be more expensive: If you're only selling the bonds to one buyer, you're not getting a market check on the interest rate. For the investor buying all of the bonds, there are obvious advantages: You're buying a lot of bonds from an issuer that you've checked out and like, for one thing, plus you are hopefully getting a bit of a higher interest rate than you'd get in a regular marketed transaction. For the investors not buying all the bonds, there is something obviously annoying about the existence of 100% placement deals. A lot of your advantage, as a big muni bond investor, is getting calls from banks when a new deal is launched. If you don't get those calls because deals are 100% placed with one investor, you lose out.

Nuveen LLC is a big municipal bond investor, a mutual fund manager with, by its own account, "the largest high-yield [municipal] fund in the world," running about $150 billion of muni assets. Preston Hollow Capital LLC is a newer, smaller municipal bond investor, running about $2.1 billion of assets using permanent capital. Nuveen invests in municipal deals in the regular way, though it does some 100% placements. Preston Hollow is a 100%-placement specialist; it "styles itself as a 'bespoke solution provider' that custom-designs its deal structures to lend flexibility and security to issuers through 100% placements."

This made Nuveen mad. If a municipality sells a 100% placement to Preston Hollow, that is bad for Nuveen. Nuveen can get mad at the issuer, but there are lots of issuers and they mostly don't issue that frequently and it's hard to communicate with them in a coordinated way. It can get mad at Preston Hollow, but Preston Hollow doesn't care about Nuveen's feelings; Preston Hollow wants to disrupt and annoy big incumbents like Nuveen. But if it gets mad at the investment banks—a small group of repeat players who do a lot of deals with Nuveen and care about its business—then it might get somewhere.

So Nuveen focused on the investment banks:

> In evaluating broker-dealers for partnering, Nuveen consistently rates "seeing deals" as the most important factor in the relationship. …. When Preston Hollow conducts 100% placements, it funds the entire issuance, and consequently Nuveen does not "see" these deals before the bonds reach the wider market. This lessens Nuveen's ability to meet

> market demand because it diminishes the array of purchase options available to it. …
>
> In an internal chat, Nuveen's Chief Investing Officer John Miller described broker-dealers working with Preston Hollow as "stab[bing] us in the back" and suggested his stance to broker-dealers would be that "if you want to build your business around Preston [Hollow], go ahead, but don't think you can ever call us again."

So Nuveen called up some brokers and basically said that. Preston Hollow sued, arguing that Nuveen is not allowed to do that. Last Thursday a Delaware Chancery Court judge, Sam Glasscock, decided the case. Here is his opinion (from which I have been quoting). Basically Preston Hollow won: Vice Chancellor Glasscock ruled that (1) Nuveen was doing that and (2) it's not allowed to do that. On the other hand he didn't award any damages to Preston Hollow, because Preston Hollow didn't ask for any, and he declined to order Nuveen to stop doing this, since it had apparently already stopped. So it's a weird win, though a win nonetheless. "In light of this decision, it would be exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior," he wrote, which is almost as good as ordering Nuveen not to.

It is a little unclear to me, reading the opinion, whether it would in fact be illegal for Nuveen just to call up investment banks and say "if you do deals with Preston Hollow, you can't do any deals with us." The rules for "tortious interference with business relations"—the bad thing that Nuveen did—are strange; you are obviously allowed to interfere with your competitors' business by *competing with them*, and you're even allowed to interfere by expressing the opinion that their business is bad. In fact, "as long as a party avoids an illegal restraint on trade, 'he may refuse to deal with the third persons in the business in which he competes with the competitor if they deal with the competitor,'" which is the gist of what Nuveen was accused of. You can "exert limited economic pressure" but not "improper economic pressure," which is a little vague.

But Vice Chancellor Glasscock effectively resolved the issue by finding that Nuveen didn't just call up investment banks and say "if you do deals with Preston Hollow, you can't do any deals with us"; it also called up the investment banks and *lied about Preston Hollow*, which probably tips the whole thing into impropriety. Here is his memorable summary of the situation:

> In *Gulliver's Travels*, Swift puts Gulliver in contact with the Houyhnhnms, beings so moral and rational that they cannot comprehend the art of lying. They do not even have a word for the concept, and are forced to describe a lie as "the thing which is not." After hearing the testimony of some of Nuveen's witnesses, one might think they were such beings. Their circumlocutions for falsehoods—"hedge," "bluff," "exaggeration," "role-play," "scenario," "overstatement," "blustering," "short-cutting," "puff," "shorthand," "overblowing"—in situations where more quotidian creatures would simply say "lie," might make one doubt that the latter word is in their vocabulary. Their testimony was generally that institutional investors and their bankers speak in an argot of forceful misstatements that all parties involved know is posturing, so that no real untruth is conveyed. Perhaps. Far more likely is that institutional investors, like the rest of us Yahoos, make statements of fact, true or false, with the intent to be believed. In this post-trial Memorandum Opinion, I find that Nuveen used threats and lies in a successful attempt to damage the Plaintiff in its business relationships. Accordingly, Nuveen is responsible for the tort of intentional interference with business relations.

He is not kidding. Here is how Nuveen's John Miller and Steve Hlavin put it to Deutsche Bank AG (emphasis added):

> Hlavin called Deutsche and stated that Nuveen "will not be conducting high-yield business with anyone who is involved in these types of transactions [i.e. 100% placements] with Preston Hollow." Hlavin represented on this phone call that Nuveen was "going to every single bank and broker-dealer" that day, and that "the policy going forward is that if you are doing – if you are actively doing business with [Preston Hollow], Nuveen will not be doing business with you." **At trial, Hlavin testified that he did not intend his words to be taken seriously, but that he needed to "make exaggerated statements" to "strengthen [his] position."** Hlavin testified that when he referenced Preston Hollow, he was "shorthanding" for 100% placement transactions.
>
> In addition to this "devastating" ultimatum, Hlavin represented to Deutsche on this call that Preston Hollow lied to issuers by misrepresenting things about Nuveen. Hlavin said Preston Hollow was "demonstrating predatory lending practices" toward borrowers and would "take [the borrowers] into bankruptcy." In a second call with Deutsche later that day, Hlavin claimed he possessed "direct evidence" of Preston Hollow's lies, though it is apparent from his testimony that he based this statement on what he overheard at Nuveen's trading desk. **At trial, Hlavin testified that he did not need to verify his allegations because he was "role playing" to "build a position" and "challenge someone in debate."**
>
> On December 21, 2018, Miller also called Deutsche. In that call, Miller stated that he had a "firm commitment" from Wells Fargo, BAML, Goldman, and JPMorgan to "never do business with Preston Hollow again." **At trial, Miller testified that he exaggerated these statements; by "firm commitment," he meant the broker-dealers "were going to look into their private versus public practices." He testified he "was overstating, shortcutting, and blustering a little bit to try and get their attention." Miller did not consider these statements to be problematic, as he testified that in the high-yield municipal bond market, other parties "[are] blustering and exaggerating to me. And I'm blustering and exaggerating back to them. And we kind of know what's going on."**

Here's what they told Goldman Sachs Group Inc. (emphasis added):

> On December 21, Miller called his contact at Goldman. After discussing Preston Hollow's growth as a company, Miller said that "to be a partner with Nuveen . . . you can't do any of this private … business with Preston Hollow." He also stated that Goldman would "have to choose who [it does] business with. Because I don't want to do business with those firms that do business with Preston Hollow." At trial, Miller testified this was "a very blustery introduction . . . to get his attention." He also testified that referencing Preston Hollow was only "a shortcut" to discuss 100% placements. Miller represented to Goldman that he had "five dealers so far" in agreement not to do business with Preston Hollow, and that he would be attempting to get more. **Again, at trial, Miller testified regarding this purported agreement that he was "exaggerating a little . . . to get a reaction."**
>
> In addition, Miller told Goldman that Preston Hollow lied to issuers. He told Goldman that issuers fell for Preston Hollow's "predatory practices" after hearing its "predatory

> sales pitch.” He also stated that “issuers are being told things that are not true,” and that Preston Hollow would “rush the issuer into” unfair or suspect transactions. He proffered that he had “a lot of evidence” to support the allegations. Attempting to put some of this evidence forward, Miller told Goldman that multiple states’ attorneys general had contacted Preston Hollow over “unethical practices,” sent it “nastygrams,” and told it, “[d]on’t come into my town again.” Miller based this allegation on a letter from a single city attorney that suggested one of Preston Hollow’s transactions might not meet state attorney general requirements with regard to a bond issue. **Miller testified the dissonance presented by his allegation and his evidence was “a little bit of a shortcut.”**

Ah. I actually find Nuveen’s view a *bit* more plausible than the Vice Chancellor does. Like, when Nuveen called up investment banks and said (1) “if you do deals with Preston Hollow we will never do deals with you again” and (2) “every other investment bank has made a firm commitment not to do deals with Preston Hollow,” the banks had to know Nuveen was, you know, bluffing or blustering or exaggerating or whatever you want to call it. (Deutsche Bank, which got the worst of Nuveen’s bluster, seems to have ignored it and kept dealing with Preston Hollow, though Nuveen did actually reduce its business with Deutsche Bank.) Investors *love* to bluster about stuff they dislike and swear that they’ll never do business with you again, but what else are they going to do? If you bring them good bond deals, they’re gonna pick up the phone. And if they tell you that all of your competitors have agreed to give up a profitable business, great, more for you.

Or here is Vice Chancellor Glasscock’s fun summary of “the box,” an important bond-trader threat:

> One tool municipal bond traders use to leverage desired actions is to express displeasure by putting another party or entity “in the box.” This bond-trader colloquialism is well-known in the industry, and both Nuveen and Preston Hollow use it regularly. A broker-dealer can also put a trader or other counterparty in the box. At its most basic, it is simply a way for a party to leverage action. Being “in the box” has no official repercussions and so can be used somewhat casually. At the same time, being “in the box” can lead to more serious consequences, such as a temporary cessation of business between parties.

Being in the box—it’s a hockey metaphor, the penalty box—sort of notionally means that the party who put you in the box is not going to trade with you for a while, but as the Vice Chancellor says it doesn’t necessarily mean that. It could just mean that they’re mad at you and want to express that they would *like* to stop trading with you for a while, but the world is what it is and if you’ve got a trade for them they’re gonna take it. “Well, you’re in the box, but you are a tick tighter than anyone else so I guess we’ll trade with you,” that sort of thing.

We have talked a lot over the years about bond traders at investment banks who have gotten in trouble for lying to their customers. Their awkward defense is always of the form: Look, I am a *bond trader*, my whole business is lying to my customers, it is what they expect, since they spend all day lying to me too. Judges are always a bit horrified, but not always unpersuaded, by this argument. It’s got some truth to it! Here one of those customers, Nuveen, launched a pretty broad program of lying to its bond dealers, and didn’t even think that was a bit unusual. They were “role playing” to “build a position” and “challenge someone in debate”; it is just what one does.

Bloomberg Opinion

By Matt Levine

April 13, 2020, 9:28 AM PDT

Matt Levine is a Bloomberg Opinion columnist covering finance. He was an editor of Dealbreaker, an investment banker at Goldman Sachs, a mergers and acquisitions lawyer at Wachtell, Lipton, Rosen & Katz, and a clerk for the U.S. Court of Appeals for the 3rd Circuit.

Nuveen Improperly Tried to Destroy Rival, Judge Concludes.

The Chicago-based bond market powerhouse "was not simply attempting to achieve a competitive edge. . . .It meant to use the leverage resulting from its size in the market to destroy Preston Hollow."

(Bloomberg) — U.S. bond-market powerhouse Nuveen LLC wrongfully interfered with the business of Preston Hollow Capital LLC by organizing an intimidation campaign to coerce broker-dealers from doing business with its smaller rival, a judge ruled.

Delaware Chancery Court Judge Sam Glasscock III found that Chicago-based Nuveen misused its market power as one of the biggest buyers of state and local government bonds to freeze out the smaller firm from doing business with Wall Street banks and brokers.

"Nuveen was not simply attempting to achieve a competitive edge," Glasscock said Thursday in a 59-page ruling. "It meant to use the leverage resulting from its size in the market to destroy Preston Hollow."

Still, Glasscock declined to issue an injunction barring Nuveen from further wrongdoing because the company has agreed to stop the boycott and not disparage its rival.

Preston Hollow sued separately for damages in Delaware Superior Court. That suit is still pending.

"We respectfully disagree with the court's finding that Nuveen tortiously interfered with Preston Hollow's business," Jessica Greaney, a Nuveen spokeswoman, said in a statement.

The judge's ruling is the latest twist in a high-profile fight in the normally staid bond market. Preston Hollow sued last year, complaining Nuveen used its "unfettered power" to strong-arm banks into blackballing it.

Jim Thompson, Preston Hollow's chairman and chief executive officer, said the firm wasn't concerned with Glasscock's refusal to issue an injunction to prevent Nuveen from starting another disinformation campaign.

"The court's stern language will serve as the injunction we sought, as we are confident Nuveen will follow the court's admonition that it would be "exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior," Thompson said in an emailed statement.

The judge heard testimony at a trial last year that Nuveen executives, including muni-bond titan John Miller, threatened to pull tens of millions of dollars in business from banks that underwrote offerings with Preston Hollow and financed its loans. Miller is co-head of Nuveen's fixed-income unit and oversees more than $160 billion in municipal bond assets.

Preston Hollow is best-known for making $2 billion in loans to finance hospitals, real estate developments and student housing. Nuveen, which had almost $1 trillion in assets under management as of March 31, is the investment manager of TIAA, best known for offering financial products to teachers.

At trial, Preston Hollow's lawyers played tapes of calls Miller made to bond traders at Goldman Sachs & Co. and Deutsche Bank AG in which he threatened them with loss of Nuveen's business if they continued to do deals with Preston Hollow.

Testimony in the case showed Miller and other company officials disparaged Preston Hollow, including claims that the company's "unethical practices" caught the attention of states attorneys general. Glasscock said that amounted to a single letter from one city attorney.

"Miller's testimony that this lie was 'a little bit of a shortcut,' does not keep it from constituting a knowing misrepresentation intended to interfere with Preston Hollow's business."

Miller still has the company's support, Greaney said.

"John and his team remain motivated by a desire to protect client investments while also supporting a fully transparent municipal-bond market for all participants," she said.

Crain's Chicago Business

April 09, 2020

Preston Hollow Capital Gratified by Delaware Chancery Court's Finding That Nuveen Used 'Threats and Lies' to Stifle Competition in Municipal Bond Market.

– Ruling Affirms that Nuveen Undertook a Systematic, Destructive Campaign Against Smaller Rival, Preston Hollow Capital –

Preston Hollow Capital ("PHC"), an independent specialty municipal finance company based in Dallas, today outlined its response to the recent ruling by the Delaware Chancery Court, which found Nuveen guilty of using "threats and lies in a successful attempt to damage [PHC] in its business relationships." The ruling was delivered on Thursday, April 9, 2020 in a 60-page Memorandum Opinion from Vice Chancellor Sam Glasscock III. Vice Chancellor Glasscock found Nuveen liable for the anti-competitive and injurious actions of its team led by Nuveen Head of Municipals, John Miller, in intentionally and illegally interfering with PHC's business relations with its primary lender and six major Wall Street investment banks.

Jim Thompson, Chairman and Chief Executive Officer of Preston Hollow Capital, stated, "Municipal borrowers deserve a truly competitive marketplace where they are able to select the capital provider that meets *their* needs in funding their vital projects, not the needs of a large money manager like Nuveen. This is, in essence, the very injustice that the Vice Chancellor exposed. His ruling meticulously details Nuveen's campaign of anti-competitive, untruthful, unfair and destructive conduct carried out by Miller and his team against Preston Hollow in our marketplace. It's important to remember that the real 'winners' are municipal borrowers across the country, as we expect Nuveen to heed the Court's stern admonition that it would be 'exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior' against Preston Hollow going forward."

Nuveen’s Anti-Competitive Conduct

The Court’s ruling painstakingly reveals Nuveen’s organized, methodical attack against its smaller rival, which Miller had come to view as a competitive threat. In the words of the Court:

The facts revealed in litigation … show that as Preston Hollow was becoming a contender in the high-yield municipal bond market, Nuveen, the self-styled “largest high-yield [municipal] fund in the world,” sought an industry-wide agreement not to conduct business with Preston Hollow. Although part of Nuveen’s motive was its interest in ‘seeing all the deals,’ its behavior shows that its object was also an attack directed at Preston Hollow’s ability to operate. The evidence demonstrated an aggressive and widely dispersed campaign to use almost any pressure necessary to cut off a competitor from its chief source of business as well as its financing. I find that Nuveen was not simply attempting to achieve a competitive edge; it meant to use the leverage resulting from its size in the market to destroy Preston Hollow. [Memorandum Opinion, p. 51]

These and related findings made by the Court reflect intentional anticompetitive conduct of the kind often punished by regulators charged with supervision of financial markets.

Nuveen’s Pattern of Deceit Concerning Preston Hollow Capital

The Memorandum Opinion also catalogues the array of falsehoods about Preston Hollow that Miller and his team spread throughout the municipal marketplace:

[The Nuveen witnesses’] circumlocutions for falsehoods—”hedge,” “bluff,” “exaggeration,” “role-play,” “scenario,” “overstatement,” “blustering,” “short-cutting,” “puff,” “shorthand,” “overblowing”—in situations where more quotidian creatures would simply say “lie,” might make one doubt that the latter word is in their vocabulary. Their testimony was generally that institutional investors and their bankers speak in an argot of forceful misstatements that all parties involved know is posturing, so that no real untruth is conveyed. Perhaps. Far more likely is that institutional investors, like the rest of us Yahoos, make statements of fact, true or false, with the intent to be believed. In this post-trial Memorandum Opinion, I find that Nuveen used threats and lies in a successful attempt to damage the Plaintiff in its business relationships. [Memorandum Opinion, pp. 1-2]

The Vice Chancellor lays down withering criticism of Nuveen’s trial witnesses’ credibility, characterizing their explanations as “both self-serving and disingenuous.” [Memorandum Opinion, p. 39]:

Business Wire

April 13, 2020

Municipal Bond Defaults Will Be A Wake-Up Call For Bond Insurers.

The coronavirus has had a devastating effect on the short-term finances of every state and municipal entity dependent on sales and payroll taxes for the revenues. The short-term effect, however, may well have very long-term implications for the finances of these entities. In turn, insurers of the bonds—those that guarantee interest and principle against default—are going to be asked to share the pain.

The 2008 Financial Crisis had a devastating effect on the monoline bond insurance industry, which used to be dominated by names like Ambac Financial, MBIA MBI and FGIC. Only one insurer, Assured Guaranty, came through the crisis relatively unscathed and rose to become the industry leader from a previous third or fourth place. Its success, however, was unrelated to its municipal bond underwriting. Rather, it was due to its prudence in not plunging into the insuring of corporate and structured mortgage backed securities.

It was this segment of the business that brought down all the industry leaders. The actual business of insuring municipal bonds came through the crisis without immediate losses, so Assured Guaranty gained market share and prospered. But the industry shrunk dramatically and the seeds for future troubles soon became clear.

Two major changes came out of the financial crisis that threatens the health of this important industry. The first was that interest rates declined to where the insurance fees dropped as much as 80 percent. This is because bond insurance had traditionally been structured to be of no cost to the issuer, i.e. the fees were based of the savings in interest expense due to the bonds being rated AAA versus the issuers rating which were usually A- or BBB.

In theory, this ignoring of traditional underwriting principles was justified on the assumption that the insurer was writing coverage to a zero losses standard. This was, of course, a stretch in logic but was supported by Moody’s and Standard & Poor’s so long as they could get a piece of the fees on each deal for rendering their AAA imprimatur. The insurance fee structure was furthermore negatively impacted when S&P, and eventually the other rating agencies, downgraded the United States from AAA to AA+. This led to then downgrading the monoline bond insurers as well as the credit enhancement they actually could render. Along with the decline in interest rates, this proved to be a massive hit to the industry’s fee structure. Still, they forged on, but failed to convince bond buyers that their insurance was worth more than the credit enhancement differential which had become miniscule. This of course was reflected in minuscule yield differentials.

A second negative event for bond insurers since 2008 has been a redefining of just who is being insured. The financial problems of states and municipalities have been growing for decades as unfunded obligations for pensions and health care have ballooned in anticipation of a crisis sometime in the future. In my view, the pandemic has accelerated that crisis point.

I have been reporting on municipal bond defaults for more than thirty years through the Forbes/Lehmann Distressed Municipal Debt Report. We are seeing numerous municipalities assuming that, since they paid for the bond insurance, they are entitled to its benefits. Hence, there are an increasing number of instances of municipalities refusing to make their contractual debt service payments thereby requiring the bond insurers to step up and pay. Puerto Rico has gone so far on its insured issues that it now collects the interest payments as they come due from the insurer, and keeping the money rather than pay out interest to bondholders! The presumption in such actions by the municipal bond issuer is ludicrous, but defensible with taxpayers. Bondholders have yet to be heard from.

This pandemic provides an opportunity for distressed bond issuers to come together, declare a financial emergency and essentially renege on future interest and principal payments. And why not, they may even decide to renege on their uninsured debt as well. We see the extraordinary actions taken so far at the federal level by both the Federal Reserve Bank and the Federal Government. Some of these municipalities only have enough cash to either pay employees or to make interest payments. Their choice is obvious. Will the Fed or Washington intercede, probably, but this is far from certain.

For monoline bond insurers the future choices are clearer. For too long, bond insurance has been treated as a credit enhancement tool. It has become a true insurance product. It's time to treat it and price it as such or face possible ruin. One solution is to focus on selling insurance to the bondholders rather than the issuers. This concept has been tried in the past with very limited success since it could not compete with the low fees and higher costs from the credit enhancement approach. Now is the time for change.

Forbes

by Richard Lehmann

Apr 13, 2020

Community QE - An April Game Plan for States and Cities.

Late last week, just before the holiday weekend, the Fed announced that it would be opening a new financing facility for hard-pressed States and Cities dealing with our COVID-19 pandemic – a facility fully deserving of the name 'Community QE.' This is a truly 'game changing' development that is just as critical for States and Cities as it will be *unfamiliar* to them for a while. Both for that reason, and because it will be crucial for our States and Cities to start using the new Facility *immediately*, this Column will provide a bit of background and then recommend a 'Game Plan' for the coming week for hard-pressed States and Cities.

Background

On April 9, the Board of Governors of the Federal Reserve System ('Fed') announced plans to open a new Municipal Liquidity Facility ('MLF,' 'Facility') to assist U.S. States and Localities suffering acute liquidity shortages while working to address the current COVID-19 pandemic.[1] A number of compelling considerations have prompted the move.

Prominent among the mentioned considerations are three mutually reinforcing developments that have intensified in recent weeks. *First*, States and Cities are facing spikes in required expenditure as they take on the role of front-line responders to the pandemic and its consequences. *Second* and simultaneously, States' and Cities' principal sources of revenue – in particular, sales taxes, income taxes, and property taxes – have dramatically contracted as businesses suspend operations and taxpayers 'shelter in place.' Finally *third*, the $4 trillion municipal bond market, the health of which is critical not only for States and their Subdivisions, but also for other securities markets, has experienced unprecedented volatility since February.

Against the backdrop of these developments, public health officials, State and Local officials, and bond market professionals have called since March for Fed intervention in the markets for State and Municipal securities ('munis') to stabilize prices, restore confidence to muni-investors, and ease the liquidity strains already hampering State and City pandemic response efforts. With passage of the Coronavirus Aid, Relief, and Economic Security ('CARES') Act by Congress last month, it became clear that both our federal legislature and our Fed and Treasury would be heeding these calls.

What remained unclear till the 9th of this month was what precise form the relief to States and their Subdivisions would take. That *remains* at least *somewhat* unclear, inasmuch as (a) U.S. Governors this morning requested that Congress appropriate more funding for States, and (b) the new Fed Facility has only just been announced and is accordingly only beginning its existence even as a 'work in progress.' But we know much more now than we did before the 9th, and it is all very good news for everyone concerned about the three developments enumerated above.

I'll accordingly first lay out what new details we now have, then offer informed predictions as to what more is likely to come, and then lay out the aforementioned Game Plan for States and Cities to follow in making optimal – and *immediate* – use of the new Fed Facility as it currently stands. In effect, as I noted the morning of the Fed's announcement last week, we have entered a world of *Community QE*, which it is critical for States and Cities to master and put to use quickly.

The Municipal Liquidity Facility

The new Municipal Liquidity Facility will operate under the auspices of Section 13(3) of the Federal Reserve Act ('FRA'), which grants the Federal Reserve emergency lending authority in exigent circumstances. The Fed typically exercises this authority through purchase and hence 'monetization' of short-term debt instruments – a practice known in finance parlance as 'discounting.'

In effect, the Fed temporarily swaps its own dollar liabilities, which are legal tender, for liabilities of its counterparties, which are not legal tender. The counterparty is thereby rendered 'liquid' – possessed of sufficient cash to spend on what ever it must spend to work past whatever difficulties it might be facing – until its debt instruments reach maturity. At that point the instruments are either redeemed in full or 'rolled-over' (when such option is available).

Perhaps needless to say, the Fed made abundant use of the Section 13(3) authority to afford liquidity assistance to many institutions and markets during the financial troubles of 2008-14, and thus has considerable experience with this funding mechanism. It is thus not the use of 13(3) that will be new now, but the use of the facility to aid States and their political Subdivisions in particular. That is unprecedented, and its significance is accordingly apt to be under-appreciated at first.

The new Municipal Liquidity Facility (again, MLF) that the Fed will now open under Section 13(3) will, like its predecessor facilities during the last financial crisis, operate through a newly formed special purpose vehicle (SPV) – in essence, a legal trust able to purchase, hold, and sell financial assets. In this case the assets in question will be State and Municipal paper, presently called 'Eligible Notes' in the MLF Term Sheet, whose salient characteristics I will lay out in a moment.[2]

The MLF SPV will be initially capitalized with $35 billion from the U.S. Treasury, Congressionally appropriated for the purpose by the aforementioned CARES Act. On this basis, the Fed will itself lend $500 billion, rendering Treasury the equity investor and hence first risk-bearer in the SPV while the Fed serves as leverage-provider.

While the structure just described has, as noted before, been a familiar one since the last financial crisis, the 'substance' of its particular operations is new and noteworthy – indeed unprecedented and 'game-changing' – in ways that are critically important for States and their Subdivisions now faced with pandemic-caused hardship. At least three features bear special mention in this connection.

First, the MLF SPV will purchase securities *directly* from States or their Subdivisions – they will not have to be sold first on the 'open market' to private sector financial institutions as is the case with Fed purchases under the FRA's Section 14 authority.

Second, the months-to-maturity on the paper in question will, for now at least, be 24 rather than 12 months as originally anticipated.

And *third*, most importantly of all, the Fed will retain discretion (a) to *extend* the mentioned months-to-maturity requirement, (b) to extend the *timeframe* within which it is willing to buy – currently set to expire September 30th – and (c) to *loosen* the qualitative *criteria* that Eligible Notes must meet.

In addition to these three most salient features, several others are also worth bearing in mind at least as background conditions, even though they are subject to change – and, in this observer's view, in some cases *likely* to change – going forward …

First, where *apportionment* of funds is concerned, the Fed appears to intend, at least for the time being, to calculate on a per capita basis. States or Cities with large populations would in that sense be eligible for more funding than States or Cities with smaller populations – but only in proportion to those populations themselves. This means that in effect every citizen and legal resident of the U.S. will be eligible for the same benefit as everyone else. Whether departures from *pro rata* distribution of this kind might be forthcoming if some States or Cities recover quickly from the pandemic while others recover more slowly remains to be determined.

Second, at present Eligible Notes are required, not only to mature within 24 months of issuance, but also, per the Term Sheet, to be 'tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), [or] other similar short-term notes issued by Eligible Issuers,' and can only secure lending up to 20% of each relevant issuer's 'general revenue from own sources and utility revenue' for the fiscal year 2017. Crucially, however, 'States may request that the SPV purchase Eligible Notes *in excess* of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility' (emphasis added).

Third, proceeds of Note sales to the MLF SPV are to be used, again per the Term Sheet, 'to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline; potential reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the relevant State, City, or County.' The Fed is in these words encouraging public perception of the MLF as a tide-over liquidity facility meant to assist counterparties in, as the Term Sheet puts it, 'managing [their] cash flows' – even as other sections of the Term Sheet leave open the prospect of longer-term 'rollover' of Note debt should the present pandemic and its sequelae continue to pinch.

Finally *fourth*, Eligible Issuers will be all U.S. States and the District of Columbia, U.S. Counties with populations exceeding two million, and U.S. Cities with populations exceeding one million. The Term Sheet also stipulates in this connection that only one issuer per State, County, or City is eligible. While this requirement might be read to mean that for each State, only it itself or one of its Subdivisions may access the MLF, the fact that the Term Sheet also permits 'States [to] request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility' suggests that this restricted reading would not be correct. It suggests that instead as many eligible Counties and Cities as there are in a State may access the MLF in *addition* to, and hence in *parallel* with, the State itself.[3]

Two further, what I'll call 'interpretive' points bear noting before we summarize the upshot of the foregoing.

First, Chairman Powell and the Fed Board of Governors have effectively encouraged, in their public pronouncements of the past several weeks generally and the last several days particularly, a 'flexible' interpretation of all restrictive language found in the MLF's Term Sheet. The Chairman and the Board have also stated that they will continue to monitor the secondary muni markets for signs of resumed volatility, with an eye to possibly intervening further to stabilize them. Combined with the many openings for extension and exception specified in that Sheet itself as described above, these amount to assurances that the MLF is not only a 'work in progress,' as noted above, but also a work whose scope will *expand* should the *need* for it expand. We are, in other words, very much in 'whatever it takes' territory right now, and the Fed is prepared to improvise further as necessary.[4]

Second, bond market and public finance experts in recent weeks have been calling upon the Fed to purchase State and Municipal debt with maturities not only in excess of traditional 6-month and 12-month durations, but also in excess of the new 24-month duration. The Fed for its part has said nothing to discourage such calls. Most commentators, not to mention 'smart money' on the markets, seem now to anticipate upwards of three- to five-year State and Municipal debt to find its way onto the MLF balance sheet. While this cannot be predicted with certainty, of course, States and Cities faced with serious crises will do well to judge maturity lengthening on the part of MLF-eligible paper more likely than not – or perhaps better put, to be no less likely than any eventual need to issue it.

The Fed is, in short, keen not to repeat the mistakes of the 1930s, but instead to repeat the successes of 2008-14. That is to say it will err, if it errs, not on the side of caution but on the side of its opposite – bold, decisive, and crisis-ending *action*.

Putting all of the above together, reading it against the backdrop of the aforementioned 'whatever it takes'-style public comments made this week by Fed Chairman Powell, and synthesizing it all into a one-paragraph description of the new MLF, it appears then that we have the following:

The Fed will immediately begin directly monetizing 2-year State and Municipal debt, in order to ensure that all States and their Subdivisions are sufficiently financed to continue their current roles as front-line responders to the nation's ongoing COVID-19 pandemic. While in the immediate term it will supply funding up to 20% of what States and their Subdivisions normally take in through traditional revenue sources, it stands ready to lever-up that amount, as well as to lengthen the maturities of eligible paper, should the pandemic and its collateral damage continue to work hardship for longer than now is anticipated. It also stands ready to 'roll over' even 2-year State and Municipal debt, once it has purchased it, should crisis conditions continue past present expectations.

This is effectively *Quantitative Easing for Communities*, or *Community QE*. Our States and their Subdivisions will do well to begin using it at once.

An April 'Game Plan' for States & Their Subdivisions

In light of the above, it seems to this observer that States and their Subdivisions should begin making use of the new MLF immediately. Because those federal instrumentalities that would normally have taken the lead role in addressing the Coronavirus pandemic have not done so, it has devolved upon our States and Cities to play the role of these federal agencies. What the Fed has effectively just announced is that these *de facto* new federal *instrumentalities* will now receive *de jure* federal financing. *Acting* as federal entities, they will now also be *funded* much like federal entities.

There is not a moment to lose in accessing and using these funds. For one thing, every lost day amounts to hundreds or thousands of lost lives. For another thing, harm to State and Local economies is much easier to do than to undo. Best then to employ all means of 'damage control' now, at the earliest possible opportunity, rather than later – when thousands more will have died and much more productive capacity will have been lost.

It should also be noted that, in addition to all of the reasons elaborated above, there is *another* reason to treat the new MLF as affording us much that is needed right now to address and reverse our pandemic: that is the very fact that the MLF is, as emphasized twice now already, a '*work in progress*' …

The Fed is *improvising* right now. That means that what *we* do in response to the improvisation will be very important in determining the shape it assumes as it unfolds. We – the States and the Cities – are in other words *co-authors* of this new authority. It will ultimately be partly *what we make of it.* That is precisely why this observer is writing this Memorandum.

What, then, to 'make' of the MLF? This author believes all State Governors and Legislatures should be called into emergency session at once, 'virtually' if need be, to begin serious deliberation over how to begin using the MLF immediately. These sessions should also be attended by representatives of the States' largest Counties and Cities, as well as by appropriate personnel from all relevant State and Municipal Public Finance Departments.

Counties and Cities should hold counterpart Mayoral and Council meetings as quickly as possible too. For smaller ones, this will be to determine what aid to seek from their States as the latter tap into the new MLF. For the larger ones, it will be both for that reason and in order to determine what to seek *directly* from the Fed through the MLF.

All States and Cities that go into session as just described should also engage representatives of all regional Federal Reserve Banks in whose operational jurisdictions they are located as quickly as possible – ideally requesting their attendance at the sessions themselves. This will be important because the regional Federal Reserve Banks are the primary 'interface' between our federated Federal Reserve System and the nation's various State, Local, and Regional economies.[5] In virtue of that role it will be easiest for the Federal Reserve System both to learn as quickly as possible what State and Local MLF needs are going to be, and to set into motion all procedures that will be necessary for States and Cities to *access* the Facility, if these regional Fed officials are involved in deliberations – even if only as observers – from the very beginning.

Because the need of funds generally is likely to be recognized and agreed upon even more quickly than the full panoply of specific *uses* of funds, it will probably also be best for State and City officials to 'segment' the deliberations that they commence in the emergency sessions that I am recommending here. First can come deliberation and decision over how much funding to seek and whom to authorize to begin preparations for the new issuances that the States and Cities will sell to the MLF SPV. That will of course involve *preliminary* vetting of specific needs and ongoing crises, if only to ensure everyone is clear on the urgency of the funding need itself. But more detailed decisions as to specific intra-State and intra-City *allocation* of funds then can be deferred to a second deliberative phase commencing immediately after decisions about what funding to seek have been made.

Call the first, *quantitatively* oriented discussion of funding needs and issuance authorization, then, '*Phase One*.' And call the second, more *allocatively* oriented deliberation and decision-making '*Phase Two*.'

If at all possible, this author believes States and Cities should begin holding their *Phase One* sessions immediately following the Easter weekend – that is to say, the week of April 12th – or as soon thereafter as possible. This is, again, both because the public health and economic devastation being wrought by the pandemic is happening quickly, and because the sooner that States and Cities begin weighing-in on how the MLF is implemented, the more influence they will have on its ultimate contours and characteristics. Once these Phase One decisions have been reached and the appropriate State and Local personnel have been assigned their issuing and Fed-liaising tasks, States and Cities can proceed directly to Phase Two preparations – that is, to gathering information, testimony, advice and all other deliberative 'inputs' necessary to make sensible allocation decisions in respect of the new funding that will be coming from the MLF.

Once Phase Two deliberations end in allocation decisions, States and their Subdivisions might next consider what I'll call '*Phase Three*' deliberations over whether to press the Fed for further liberalization of the terms of the MLF Term Sheet. It might be decided, for example, that authorization to purchase State and Municipal paper of longer maturity than 24 months should be sought, or that a rollover option should be made more explicit. These questions can presumably wait, however, until current uncertainties 'on the ground' are resolved. With any luck, for example, the pandemic might be contained before summer ends. Or the States' Governors might succeed in their current effort to secure more direct funding from Congress.

However that may be, what matters now is that Phase One commence, and that it commence 'with all deliberate speed.' This observer will continue to watch events unfold, and will follow-up with further reporting and recommendations on an 'as [seems to be] needed' basis.

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[1] See Board of Governors of the Federal Reserve System, *Press Release: Federal Reserve Takes Additional Actions to Provide Up to $2.3 Trillion in Loans to Support the Economy*, April 9, 2020, available at. In what follows the terms 'City,' 'Locality,' and 'Municipality' are used more or less interchangeably to refer to what the law labels 'municipal corporations.' The terms 'Subdivision' and 'Political Subdivision' are in turn used to embrace both entities of that first type and Counties, which the new Facility described in this Memorandum distinguishes and treats differently from Cities.

[2] Board of Governors of the Federal Reserve System, Term Sheet: Municipal Liquidity Facility, April 9, 2020, available at.

[3] Hence, for example, in California both the State and the City of Los Angeles would be immediately eligible to borrow under the Facility, while the State would be eligible to petition for additional borrowing on behalf of other cities such as San Diego or San Francisco. New York State and New York City will be similarly enabled. The story will be similar for Texas, save in its case two cities – Dallas and Houston – rather than one will be eligible alongside the State to borrow immediately. The author is currently seeking confirmation of this reading.

[4] 'Whatever it takes' has become a catchphrase in central banking parlance since European Central Bank ('ECB') President Mario Draghi's assurance in 2012 that the ECB would do what ever is necessary to stabilize the Eurozone. Use of the phrase in the present context signals a readiness on the part of a monetary authority to interpret terms flexibly or even to rewrite them should the alternative be market collapse.

[5] To recur to the examples mentioned in footnote 3, for instance, officials of the Federal Reserve Bank of New York would be in attendance at State sessions in Albany and City sessions in lower Manhattan. Officials of the Federal Reserve Bank of Dallas would be in attendance at Texas sessions in Austin and Municipal sessions in Dallas and Houston. And so on.

Forbes

by Robert Hockett

Apr 12, 2020

Far Worse to Come: COVID-19 Collapse of State and Local Governments

Another sudden and unexpected factor will transform this year’s elections. Many states, cities and counties are about to, suddenly, run out of money. Wages won’t be paid. Services won’t be delivered. Institutions will shut down abruptly. Many state colleges may fold. And yet most state and local political and administrative leaders just sit and watch. Voters will not be pleased.

Millions of American workers filed for unemployment insurance during the past two weeks. That is a record and represents a collapse of our local economies. Across the country, in every state, county and city, businesses have been shut down, and many will not return after the coronavirus crisis is over. Tens of millions have lost jobs, homes, savings and retirement incomes that will never return. Owners of rental property will go under when their loan payments come due and renters can’t pay. Across the country, state and local economies are being badly damaged — many of them permanently.

The result is that state and local tax revenues will plummet. States and localities will burn through any reserves they’ve maintained like wildfire. Since most of our politicians and government managers have been raised during a decade of expanding economies, their first instinct will be to wait and then panic and then raise taxes to cover shortfalls — perhaps a special “coronavirus surtax.” Taxpayers across the country have tolerated various forms of high state and local taxes; the politicians would naturally ask, “Why should now be any different?”

But it is different. The resulting increased tax burden would be a disaster. Businesses that were barely hanging on would go under. Workers and homeowners who were barely surviving would go under. State and local tax bases would collapse even faster. There would be social unrest, possibly requiring martial law. People would migrate from high-tax states toward new jobs, accelerating a downward spiral. These large migrations would make the 2020 census results nonsense.

The only answer for the states, counties and cities that want to survive is to slash budgets now — probably 30 to 50 percent — eliminate all nonessential spending and reduce taxes today. Business leaders know that, in these types of situations, the only way to save a company is to cut costs immediately. There is no other answer, and those who act first and most aggressively are the most successful in saving the company and the greatest number of its employees. In short, “fiscal distancing” — that is, separating politicians from taxpayers’ money by cutting budgets and taxes now — is literally the only useful thing that state and local governments can do to prevent further economic and social catastrophe.

There is actually no other significant role that states and local governments can play in saving their economies, tax bases and quality of life. Only the federal government can provide truly useful, significant financial help to businesses and individuals during this historic disaster because only the federal government can print money in a crisis. Cutting taxes is the only state and local option to help their economies. Spending extra money now is throwing rocks into their own lifeboats.

I’ve talked to and written to many state and local officials over the past couple of weeks. Their recorded messages say they are all “working nonstop on coronavirus task forces.” Not to be rude, but most of that is a complete waste of time and public resources. With few exceptions, little or nothing useful will come of that. Only private businesses, individuals and the federal government are able to address this problem. For the most part, state and local governments will be in the way, except for critical, essential services such as police forces, fire departments and health care. Nearly everything else must go, now.

Of course, I’m not optimistic that many officials or politicians at the state or local levels will take massive budget cuts or slashing taxes seriously — yet. They were raised in a different world of explosive economic growth. Most would prefer to promote vanity and virtue-signaling projects from their towering sandcastles they've built with taxpayer money over the past couple of decades, even as their castles crumble around them. They could never grasp that cutting taxes is the only tool they have to preserve their states, counties and cities. The concept is far beyond their political vocabulary — none of them could grasp the public finance, let alone the Darwinian game theory, aspects of the enormous challenge in front of them.

States are now furiously competing for ventilators. Tomorrow they will be fighting for taxpayers. Their primary (only) goal today should be to support and save their local economies — businesses, homeowners and other taxpayers — so that they have a foundation left on which to build later. If they kill off their tax base or drive businesses and taxpayers out of their states or localities, they will have poured salt on their fields and they will starve in the future. Their political careers will be over.

And so, as the coronavirus preys on the weakest human bodies, it also preys on the weakest state and local politicians. We can only hope that the fiscal mortality rate among those will be lower than the models suggest. In the end, though, the ruthless force of American politics probably will claim a new crop of unexpecting victims.

THE HILL

BY GRADY MEANS, OPINION CONTRIBUTOR — 04/12/20 09:00 AM EDT

Grady Means is a writer (GradyMeans.com) and former corporate strategy consultant. He served in the White House as a policy assistant to Vice President Nelson Rockefeller. Follow him on Twitter @gradymeans1.

Can The Fed Save The Municipal Bond Market?

The rapidly-deepening economic crisis keeps threatening financial markets, including the $3.9 trillion municipal bond market. The ongoing economic collapse means state and local economies are plummeting, dragging their government finances with it. Today, the Fed announced a multibillion intervention to stabilize the muni market. But can the Fed save the market?

The Fed has resisted this unprecedented step. But the pandemic-related bad economic news keeps piling up, with today's announcement of six million new unemployment insurance claims (for a three-week total over 16 million, around ten percent of the labor force). And there's no break in sight. The St. Louis Federal Reserve now predicts a loss of 47 million jobs with an unemployment rate rising to 32.1 %, over 7 % above the highest level ever recorded in the Great Depression.

State and local governments are staggering under the spending burdens from health care and other public services imposed by the pandemic. But they also are seeing all tax and revenue sources—sales, income, property, and excise taxes—fall, with sharply negative forecasts for the future at a time when many states ordinarily would be passing a new fiscal year budget. California, Colorado, Alaska, New York, Florida—no state or city is immune.

Continue reading.

Forbes

by Richard McGahey

Apr 9, 2020

States, Cities Set for Deficit-Borrowing Spree After Big Tax Hit.

(Bloomberg) — America's state and cities will likely need to sell billions of dollars of short-term debt to keep running as the fallout from the coronavirus deals a massive hit to tax collections.

With local economies grinding to a virtual halt and tax-filing deadlines pushed back until July, governments across the country are likely to face severe financial strains during a time of the year when they're usually flush with cash.

In New York, where the pandemic is projected to add as much as $7 billion to the budget deficit in the current fiscal year, Budget Director Robert Mujica said on April 1 that the state has "no choice but to issue short term borrowing to bridge the gap" for the three months until annual income-tax payments are due. Rhode Island is weighing whether to borrow $300 million. The New York State Thruway Authority may borrow as much $350 million as toll revenue from drivers plummets.

"It's very likely to see an uptick in the short-term note borrowing as these issuers await their revenue to come through," said Erin Ortiz, a managing director at Janney Montgomery Scott in Philadelphia. "Local governments have a much smaller revenue base and tend to operate with lower fund balances and available cash."

Such short-term borrowing climbed to a record $67 billion in the aftermath of the last recession, when the contraction rippled through tax collections long after it began. The unprecedented speed and scale of the pandemic-induced slowdown is delivering a more immediate financial hit, with the widespread closure of businesses decimating sales-tax revenue and throwing millions of Americans out of work since last month.

The ability of states and cities to borrow on a massive scale this time has been complicated by unusual volatility in the $3.9 trillion municipal-bond market after investors pulled out record sums of cash amid concern that the crisis will create financial distress for hospitals, convention centers and others that have issued debt.

That retreat has caused the pace of debt sales to tumble as the biggest deals are put on hold. Since March 16, only about $6 billion of new state and local government bonds have been issued, a drop of 70% from the same period a year ago, according to data compiled by Bloomberg.

Richard Li, the public debt specialist for Milwaukee, Wisconsin, on April 2 tried unsuccessfully to auction $120 million of nine-month notes to cover the temporary cash shortfalls it was anticipating before the virus struck. His office received just two bids, both from separate arms of JPMorgan Chase & Co., and rejected them both because the cost was higher than expected. The city opted for a loan with U.S. Bank at an offer closer to the market rate, Li said.

"The market is so locked up and it just can't figure itself out," Li said.

That's left state and local government officials looking for the Federal Reserve to utilize the power to buy municipal debt that it was given under the $2 trillion economic stimulus program. The Government Finance Officers Association, a lobbying group for municipalities, last week urged the central bank to create a low interest-rate loan program for governments facing cash crunches from the virus, saying a flood of short-term borrowing could destabilize the public market.

The Fed has already extended some aid by allowing short-term debt to be pledged as collateral under its money-market fund lending program, a step that helped arrest a steep jump in interest rates last month. But it has yet to spell out how — and whether — it will use the powers extended under the stimulus law.

Morgan Stanley municipal strategist Michael Zezas said the central bank could purchase short-term notes directly or buy securities on the secondary market.

“That’s the type of activity that could help the market heal faster than it would on its own,” he said.

Bloomberg

by Danielle Moran

BloombergApril 8, 2020

Fed Expands Corporate-Debt Backstops, Unveils New Programs to Aid States, Cities and Small Businesses.

Latest round of emergency measures expands central bank’s footprint into credit markets it has previously avoided

The Federal Reserve is going farther than ever to shore up the U.S. economy, unveiling programs to lend directly to states, cities and midsize businesses that have seen revenues evaporate amid efforts to combat the novel coronavirus.

The central bank also said Thursday it would expand previously announced plans to backstop lending to large companies by supporting riskier bonds issued by corporations that had recently lost their investment-grade status.

Altogether, the Fed said nine lending programs it is creating or expanding would provide up to $2.3 trillion in loans, and officials signaled they were prepared to expand those programs as needed to stem long-lasting damage to the U.S. economy.

“It’s really an awesome display of creativity and decisiveness—the breadth and diversity of programs,” said Antonio Weiss, a Treasury official in the Obama administration who is now a senior fellow at Harvard University’s John F. Kennedy School of Government. “They are taking a role well beyond any the Fed has played in its modern history, and the economy needs it.”

In leading the Fed beyond past efforts to support lending during the Great Depression or after the 2008 financial crisis, Chairman Jerome Powell is pushing deeper into areas of credit and fiscal policy that the central bank has traditionally deferred to elected officials.

During and after the financial crisis, the Fed left it to the White House and Congress to provide financial assistance to failing auto makers and local governments facing declining revenues and rising expenses, viewing such decisions as essentially political.

Now, with a far broader swath of the economy shut down to prevent the spread of infection, companies and local governments of all sizes are struggling to make payroll, pay bills and service their debts.

The Fed last month cut its benchmark rate to near zero at two unscheduled meetings and has ramped up purchases of Treasury and mortgage-backed securities at an unprecedented scale. Its asset portfolio has quickly ballooned to more than $6 trillion from $4.2 trillion in February, and it is on pace to more than double by midyear from its prior high of $4.5 trillion.

“The Fed is at war against the virus, and this is a wartime degree of commitment to credit policy,” said Krishna Guha, vice chairman of Evercore ISI.

The superlatives the Fed is setting with the scale of its response have been matched by the speed with which unemployment is rising. An all-time high 7.5 million Americans were receiving unemployment benefits at the end of March, the Labor Department reported Thursday. Another 6.6 million had submitted claims during the week ended April 4.

The severe scale of damage has prompted the Fed to signal its willingness to buy assets or make loans in any market it thinks will be necessary to stave off further job losses and business failures.

The Fed has tried to identify “the priority areas where we thought help was needed,” Mr. Powell said during an online forum Thursday. “As we identify other areas, we won’t hesitate to move.”

Mr. Powell also said it would be important to defer to health authorities in determining how to reopen the economy. “We need to have a plan nationally,” he said. “We all want it to happen as quickly as possible. We all want to avoid a false start.”

The Fed first moved in funding markets last month to prevent a public-health crisis from morphing into a financial crisis, and later said it would assist credit markets that have broken down.

The Fed’s initial response borrowed heavily from the programs developed by former Chairman Ben Bernanke, who during the 2008 financial crisis used lending authorities the Fed hadn’t employed since the Great Depression.

Having exhausted those off-the-shelf tools, the Fed is now devising new ones, relying on the advice of British journalist Walter Bagehot, author of an 1873 book that central bankers still use as a guide for crisis management.

“The holders of the cash reserve must be ready not only to keep it for their own liabilities, but to advance it most freely for the liabilities of others,” Bagehot wrote. “They must lend to merchants, to minor bankers, to ‘this man and that man,’ whenever the security is good.”

Congress and the Treasury have made possible a new generation of loan programs by extending nearly $450 billion to cover losses the Fed might sustain in its lending programs. The Fed relied on $185 billion in additional support from the Treasury in launching the programs announced Thursday.

That leaves the Fed with a significant amount of resources available still to expand these programs or introduce new ones should they be needed. Mr. Powell signaled the central bank was in no hurry to withdraw its crisis support and deflected worries that the expansion of credit by the Fed would lead to inflation.

“I worry that in hindsight, you will see that we could have done things differently. But one thing I don’t worry about is inflation right now,” he said.

The steps unveiled Thursday will finance loans that banks make through the government's emergency small-business lending program and allow banks to exclude those loans from required capital ratios, freeing them up to make more of those loans, which are separately guaranteed by the Small Business Administration.

The Fed will create two other facilities to encourage banks to lend to midsize businesses, which it defined as those with fewer than 10,000 employees or less than $2.5 billion in revenues last year.

This Main Street Lending Program will enable up to $600 billion in lending to firms that are too large to qualify for the small-business loans but too small to access corporate debt markets. Firms can apply for those loans on top of the forgivable payroll loans from the SBA, and banks will be able to sell 95% of the debt to the Fed.

Due to restrictions placed by Congress, the Fed said loans under the Main Street program would be subject to rules on payments to shareholders and executive compensation.

The Fed earlier announced plans to backstop funding markets for large companies and said Thursday it would expand those programs to accept some riskier classes of corporate debt beyond investment grade.

One corporate credit backstop to support new debt issuance of highly rated firms will now include so-called fallen angels that were investment-grade in mid-March but have subsequently been downgraded. A second corporate credit backstop will similarly allow a limited amount of purchases of non-investment-grade debt in exchange-traded funds.

By dipping a toe into the junk-bond market, the Fed is trying to create space for inevitable downgrades for firms in its lending facilities, reducing the "cliff effect" that companies face when they move from the lower rungs of investment grade to noninvestment grade.

Prices for debt from companies, including Ford Motor Co., registered especially large gains after the Fed's announcement. Ford's 7.45% bonds due in 2031 traded as high as 89.5 cents on the dollar after the Fed's announcement, according to MarketAxess, compared with 71 cents Wednesday. The auto maker has more than $36 billion in bonds outstanding, making it the single largest issuer of below-investment-grade debt.

Other potential beneficiaries include Continental Resources Inc. and Western Midstream Operating LP, which lost their investment-grade status after March 22, the Fed's cutoff date for formerly investment-grade firms. Continental Resources' 4.9% bonds due in 2044 climbed to 73.375 cents from 61 cents.

Another program will accept new classes of debt in the previously announced Term Asset-Backed Securities Loan Facility, or TALF, that were initially excluded from that facility when it was used after the 2008 financial crisis to support consumer and business credit markets. The program will become open to the highest-rated tranches of existing commercial mortgage-backed securities and newly issued collateralized loan obligations.

Under TALF, the Fed lends money to investors to buy securities backed by credit-card loans and other consumer debt. The Fed has made $100 billion available for that program and didn't increase the amount Thursday.

To ease funding strains for cities and states experiencing large revenue drops and rising expenses from simultaneous economic and health crises, the Fed said it would purchase up to $500 billion in short-term debt directly from U.S. states, the District of Columbia, counties with at least two million residents, and cities with at least one million residents.

The facility is designed to provide financing of up to two years to state and local governments dealing with increased demand for services at a time when revenues are plunging. The Fed program aims to restore more buying and selling in a market that seized up in mid-March, causing cities and states around the country to cancel borrowing deals for core infrastructure needs.

Muni-bond prices tanked amid frenzied selling last month. Investors yanked $32.8 billion from municipal-bond mutual and exchange-traded funds, the largest monthly outflows since data collection began in 1992, according to Refinitiv.

By limiting the facility to one issuer for each state, city or county, the Fed is likely to avoid propping up some of the most risky municipal borrowing.

Roughly 10% of muni bonds outstanding are junk-rated or unrated debt, much of it issued with state, city or county permission by a range of private entities including nursing homes and charter schools. Those bonds, many of which are held by high-yield mutual funds or other institutional investors, make up one of the most troubled sections of the market.

Analysts said the Fed's help, while valuable, wouldn't replace the need for more aid from the federal government, which provided around $200 billion to states and cities in last month's stimulus bill.

Unlike the federal government, most states operate with balanced-budget requirements that don't allow them to run deficits. "No amount of borrowing can substitute for actual funding to states that will face really impossible decisions around the provision of essential services, unless Congress alleviates the pressure on state budgets," said Mr. Weiss of the Kennedy School.

During his two years as Fed chairman, Mr. Powell has delicately resisted providing pointed advice about tax and spending decisions outside the central bank's traditional purview of regulating banks and setting short-term interest rates.

While he said the Fed would continue to use its powers "forcefully, proactive and aggressively," he issued a more assertive call Thursday for additional spending from Congress and the White House.

Many borrowers will benefit from the Fed's emergency loans, Mr. Powell said, but "there will also be entities of various kinds that need direct fiscal support rather than a loan they would struggle to repay."

Mr. Powell punctuated his call for additional fiscal support by highlighting how severe economic burdens are falling on low-income workers and other vulnerable segments of society.

The task of delivering financial support "directly to those most affected falls to elected officials, who use their powers of taxation and spending to make decisions about where we, as a society, should direct our collective resources," Mr. Powell said.

The Wall Street Journal

By Nick Timiraos

Updated April 9, 2020 5:15 pm ET

—Heather Gillers and Sam Goldfarb contributed to this article.

Smaller Cities Cry Foul on Coronavirus Aid.

Mayors protesting exclusion get sympathetic ear from some lawmakers for next round of stimulus

Mayors of small cities facing big budget shortfalls say they were unfairly cut out of the $2.2 trillion stimulus law, and they are drawing support in Congress to make them eligible for direct aid in future rounds of coronavirus legislation.

Localities are seeing increased strain on first responders and police departments, in addition to bearing the cost of purchasing personal protective equipment. Meanwhile, revenue streams from sales taxes and income taxes have slowed and unemployment claims are surging. But the rescue law stipulates that only counties and cities with populations over 500,000 residents can apply directly for the $150 billion in emergency funding for state, local and tribal governments.

“It’s a terrible slap in the face to most cities around the country,” Shane Bemis, the mayor of Gresham, Ore., said of the population restriction.

The Republican mayor said he may have to look at cuts to the police force and fire department or add a levy to property taxes to continue the services, should the shutdown continue. His city, a suburb of Portland, has about 110,000 residents.

In an interview with WSJ’s Gerald F. Seib, New Jersey Governor Phil Murphy said there is room to be optimistic after his state saw a drop in the rate of new Covid-19 cases, but warned that more federal support is needed to continue the fight against the novel coronavirus. Photo: Associated Press
Lawmakers are sympathetic but are balancing many urgent priorities in future stimulus bills. Some cities may get funds through grants and aid to hospitals as well.

“This is not a question of picking A over B, it’s saying both A and B need sufficient resources,” said House Majority Leader Steny Hoyer (D., Md.) in an interview. In the next large bill that Congress considers, he wants to get additional assistance to small communities and “get them directly to the locality, as opposed to going through the states.”

House Speaker Nancy Pelosi (D., Calif.) and Senate Minority Leader Chuck Schumer (D., N.Y.) on Wednesday requested an additional $150 billion for states and local governments. They didn’t say if they backed keeping the population requirement for direct aid to cities. An aide to Majority Leader Mitch McConnell (R., Ky.) couldn’t say if the Senate leader would support changing the requirements in future legislation.

Rep. Joe Neguse, a Colorado Democrat, on Tuesday introduced legislation that would allocate $250 billion for local communities, cities and towns that are facing challenges due to the pandemic. The legislation was introduced with 75 sponsors, but it’s not known if that will be incorporated as part of a future economic stimulus package.

Meanwhile, Sens. Michael Bennet (D., Colo.) and Cory Gardner (R., Colo.) wrote to Treasury Secretary Steven Mnuchin this week, asking him to take a broad definition of what he sees as coronavirus-related needs and ensure small and rural communities receive a share of the funds approved by Congress last month.

“I don’t think there should be population limits one way or another,” Mr. Gardner said.

A spokesperson for the Treasury Department didn't return a request for comment.

Separately, Mr. Mnuchin said that the federal government would soon announce plans to establish a facility to purchase municipal securities, responding to a Democratic effort to get the U.S. to provide a backstop for struggling cities and localities.

Lawmakers are looking at other approaches as well. Rep. Rashida Tlaib (D., Mich.) is working on part of the package of issues that House Financial Services Committee Chairman Maxine Waters (D., Calif.) will submit for consideration in future legislation. She said the goal would be to push the Federal Reserve to buy up municipal debt, providing money to help localities weather the crisis. The stimulus package gives the Federal Reserve the option to buy such debt.

Congressional aides said the 500,000 population stipulation was in the most recent bill as it was being quickly negotiated to move it through Congress faster. States that receive their share of the $150 billion can then send some to local governments, though mayors see a need for money urgently now.

"We could be off by several million dollars in our existing budget, so that's a problem," said Andy Schor, the mayor of Lansing, Mich., which has about 120,000 residents.

In addition to losses in tax revenue, the local minor-league baseball team, the Lansing Lugnuts, told the city it wouldn't pay rent this month on the stadium, and the convention space the city helps subsidize lost $1.5 million in business in two days when the pandemic hit. Mr. Schor told his residents this week to stop putting their yard waste on the curb, as one of his first decisions in the pandemic was to not hire the seasonal help that picks it up.

The law also means cities with big metro areas but relatively small populations were left out.

Miami Mayor Francis X. Suarez, who was the second confirmed case of Covid-19 in his area and has since donated blood plasma to help, doesn't expect to directly receive funding and is frustrated by the lack of information on how the money appropriated by Congress will be allocated. Miami, with just under 500,000 residents, has spent millions of dollars on personal protective equipment and coronavirus testing and has the most cases in Florida.

"We have reserves, but they are not limitless," he said in an interview. "Right now we're estimating a hit of $20 million a month in terms of lost revenue."

The Wall Street Journal

By Natalie Andrews

April 9, 2020 9:19 am ET

—Siobhan Hughes contributed to this article.

State Funding Woes Are Dragging the Fed Into Muni-Market Reboot.

The central bank has been aggressive in supporting the economy, but financing by local governments poses unique challenges

Reviving the market for bonds sold by state and local governments is shaping up as one of the stiffest tests in the Federal Reserve's campaign to restore financial normalcy.

The Fed has committed trillions of dollars to keep money flowing through markets vital to economic growth, including huge purchases of government and mortgage securities and new programs to backstop money-market funds and corporate-debt markets.

Those efforts have helped to fuel the markets' partial recovery, say investors and portfolio managers, with the Dow Jones Industrial Average up 26% from its March 23 low.

But the central bank is limited in its efforts to revive the $4 trillion market for municipal securities, which back everything from school facilities to stadiums and highways. The Fed has so far intervened in only a few corners of the market, which is fraught with idiosyncrasies that make it difficult to categorize debt as investment-grade or risky, the line in the sand drawn by the Fed to ascertain what it backstops during a crisis.

The constraints stem in part from the coronavirus's decimation of state and local finances, which could make the risks even harder to judge, and the Fed's traditional deference to Congress in handling local government financing decisions.

"The Fed doesn't want to be in a position to say you have to raise taxes or cut pay to policemen or firemen" to secure or repay a loan from the central bank, said Scott Alvarez, who was the Fed's general counsel from 2004 to 2017.

Treasury Secretary Steven Mnuchin told Democratic lawmakers Wednesday that Fed and Treasury officials would soon unveil a program to backstop financing for states. The devil will be in the details, and those designs—along with other announced plans for lending to small and midsize businesses—could be unveiled as soon as Thursday, according to people familiar with the matter.

While the Fed has the authority to purchase municipal debt with maturities of six months or less, it hasn't exercised that authority. A more likely route would be to establish an emergency lending program to backstop longer-dated muni debt.

The $2 trillion rescue package that Washington approved last month includes $454 billion that the Treasury can use to absorb losses on any Fed lending facilities. That bill provided $200 billion in direct funding for states and cities, but they are likely to need another $300 billion to $600 billion, said Tom Kozlik, head of municipal credit at Hilltop Securities.

The aid to cities and states in the recent rescue package "will not be enough to offset the cost many states and municipalities are encountering," said Boston Fed President Eric Rosengren. The Fed can help with financial markets, but those efforts will be less effective without more direct aid, he said.

Officials are trying to avoid a rerun of state and local government layoffs after the 2007-09 recession, which contributed to an underwhelming economic recovery despite unprecedented Fed stimulus.

The Fed typically seeks to steer clear of concerns about the potential loss of taxpayer funds by focusing on purchases of assets such as highly rated bonds whose default is widely judged to be minimal. Such judgments are harder to come by in the market for municipal bonds, where even the strongest borrowers have been hammered by the challenges arising from an unprecedented shutdown of business and commerce around the country.

States face not just the burden of boosting spending on public-health responses, but also a drop in revenue from sharp declines in sales-tax collections.

“In almost every way, states are at the front lines of fighting this,” said Joe Torsella, Pennsylvania’s state treasurer.

Fears that state and local finances will be permanently damaged are evident in the investor flight from this market, which until recently has ranked among the most resilient.

In March, investors pulled $32.8 billion from municipal-bond mutual and exchange-traded funds, according to Refinitiv, the largest monthly outflows since data collection began in 1992. State and local governments canceled billions of dollars of planned borrowing. The S&P Municipal Bond Index gave up more than a year’s worth of gains.

The Fed has long resisted lending to states and companies, having spurned requests from lawmakers in 2008 to aid ailing U.S. auto makers and ruled out a muni-debt backstop.

The central bank has already broken some taboos during the current crisis. It is in the process of unveiling lending facilities for large and midsize companies, and it has dipped a toe into muni-debt markets by expanding a money-market lending backstop to include certain types of municipal debt—and by purchasing some highly rated municipal debt in a facility backing the market for very-short-term commercial debt.

Analysts and state officials said the Fed could provide support by buying a broad-based muni index, avoiding the prospect of picking winners and losers outright.

Among the issues the Fed must weigh is who ultimately benefits. The yields on bonds issued by Montgomery County, Md., an affluent suburb of Washington, D.C., and Cook County, Ill., home to Chicago and where more than 700,000 people live in poverty, both jumped more than 2 percentage points over a week in March, indicating lower prices.

Yields on the Montgomery County bonds have since declined more than those on the Cook County bonds—indicating that while the market views the Montgomery County bonds as a better risk, the Cook County securities are potentially the ones more in need of support. Those sorts of regional and distributional issues carry significant risk for the Fed, investors said.

“It would be very problematic for the institution and its credibility to decide between New York and Montana,” said Mark Spindel, a Washington-based investment manager who co-wrote a history of the Fed.

The prospect of increased lending to businesses and local governments, often in consultation with the Treasury Department, could reshape the Fed’s longstanding autonomy from the executive branch.

During and after World War II, the central bank pegged Treasury yields to finance war spending and the recovery. A bruising fight with the Truman administration, which resulted in the resignation of the Fed chairman, ultimately led to a formal agreement in 1951 to end the Fed’s policy of fixing Treasury yields.

“I think it is possible that we will have a central bank when this is all over that has sacrificed a piece of its independence,” said Jeremy Stein, a former Fed governor who now teaches at Harvard.

Fears about the loss of central-bank independence are overstated given the gravity of the current crisis, said Mr. Torsella.

While political and constitutional tensions loom, “smart, well-intentioned people can figure out how to do this in a way" that "simply restores functioning of this market," said Mr. Torsella. "I want to make sure we have a fighting chance of getting back to those more normal times."

The Wall Street Journal

By Julia-Ambra Verlaine and Nick Timiraos

Updated April 8, 2020 5:56 pm ET

—Siobhan Hughes and Kate Davidson contributed to this article.

Fed Announces Municipal Liquidity Facility.

Announcement Follows BDA Letter / Recommendations to the Fed

The Federal Reserve today announced the guidelines of the Municipal Liquidity Facility, authority that was provided by the recent passage of the CARES Act.

The fact sheet can be viewed here.

Last week, the BDA urged to the Fed and Treasury to take action in the primary market by through direct purchases. The Fed also left the door open to further actions, including limited secondary market activity in which the BDA wrote in favor of.

The letter can be viewed here.

Facility Facts

The Municipal Liquidity Facility will support lending to states, cities with a population exceeding one million residents, and counties with a population exceeding two million residents.

Under the Facility, a Federal Reserve Bank will commit to lend to a special purpose vehicle on a recourse basis. The SPV will purchase Eligible Notes directly from Eligible Issuers at the time of issuance.

The Reserve Bank will be secured by all the assets of the SPV. Treasury will make an initial equity investment of $35 billion steaming from the $454 billion allotted in Sec. 4003 of the CARES Act, in the SPV in connection with the Facility.

The SPV will have the ability to purchase up to $500 billion of Eligible Notes.

Eligible Notes:

- TANS,
- TRANS
- BANS, and
- Other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 24 months from the date of issuance

Termination Date

The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

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

Bond Dealers of America

April 9, 2020

Press Release: BDA Statement on the Federal Reserve Municipal Liquidity Facility

We welcome the Fed's support for the market and we are hopeful this facility will provide needed help to municipal issuers. We are looking particularly at how smaller issuers will access the facility. We look forward to working with the Fed and others to ensure that any extraordinary help for the market is applied as effectively as possible. We also urge the Fed to use its CARES Act authority to provide support as needed for the secondary market for municipal bonds – providing much needed liquidity, benefiting the overall market.

The Bond Dealers of America is the only Washington, DC based trade association that represents securities dealers and banks whose focus is the U.S. bond markets. We work passionately to promote public policies and market practices that improve the market environment while also providing a forum for its members to learn, collaborate, debate and discuss issues of common interest.

The BDA acts as a clearinghouse for industry information and issues and provides educational opportunities for industry professionals through conferences, seminars and roundtables. By supporting the interests and prosperity of our members, we help to strengthen the companies, municipalities and investors who depend on them for both access to market liquidity and to raise the capital they need to grow and prosper.

Bond Dealers of America

April 9, 2020

Fed Treads Cautiously Into Muni Market With Loan Lifeline.

- **Central bank isn't making open-market buying, as some sought**
- **Fed leaves the door open to more steps if they are needed**

The Federal Reserve is treading carefully into the $3.9 trillion municipal-bond market.

The central bank announced on Thursday that it would lend as much as $500 billion to states and the biggest local governments to cover massive tax shortfalls brought on by the swift slowdown in the economy, preventing a wave of short-term debt sales from hitting the public markets. But it stopped short of swooping in to buy long-term debt to head off another sell-off like the one that erupted last month, as it is doing with corporate bonds, collateralized loans and commercial mortgage-backed securities.

“The Fed is throwing a lifeline to municipal governments,” said Gary Pollack, head of fixed income at DWS Investment Management. “This will provide them time to get through this difficult period.”

The step will ensure that states and the most-populous cities can raise money to keep operating as tax collections dry up while their economies grind to a virtual halt and annual filing deadlines are pushed back. Wall Street analysts had predicted that such sales would jump in the coming months, which could have put pressure on a segment of the market where interest rates surged sharply last month when money managers dumped the shortest-dated securities to raise cash.

The lending program is somewhat limited in scope, however, since it is open to states and the 10 cities and 16 counties that are big enough to meet the minimum population requirements, according to Census figures. While states would be allowed to borrow money for smaller governments that don’t qualify on their own, it’s not clear how willing they would be to do so on behalf of financially struggling municipalities.

“While today’s action helps the largest cities, it completely misses the mark for those cities, towns, and counties across our country that fall under the population minimums,” Chris Iacovella, the chief executive officer of the American Securities Association, a lobbying group for regional firms. “These areas represent the heartbeat of America and for some reason the Fed and Treasury have chosen to exclude them while backstopping the largest cities, which doesn’t make any sense.”

The Fed’s move comes after the municipal-bond market went through an unprecedented sell-off in March as investors pulled record amounts out of mutual funds and governments began to forecast huge deficits from the virus-related shutdowns in activity. That rout stopped after Congress reached agreement on the $2.2 trillion economic stimulus measure, which gave the central bank the power to lend to states and cities and fostered speculation that it would start buying already-issued bonds in order to backstop the market.

“I am a bit disappointed in that the Fed will not be buying muni bonds in the secondary market, something they are doing for investment-grade corporate bonds,” RJ Gallo, senior portfolio manager at Federated Hermes. “Perhaps that may evolve in the future if this program fails to provide sufficient capital and liquidity support.”

Bond prices gained after the Fed’s announcement Thursday, driving the yield on 10-year top-rated securities down 10 basis points to 1.24%, less than half what it hit in March. Even risky securities that feel steeply during last month’s sell-off joined in the gains, with Ohio tobacco-settlement bonds due in 2055 climbing to as much as 97.5 cents on the dollar from about 91 cents Wednesday.

The Fed’s special purpose vehicle will purchase so-called tax, revenue and bond anticipation notes, which governments sell when they’re facing temporary shortfalls in revenues or waiting to sell long-term debt. The notes that the entity purchases must mature in 24 months or less.

That will prevent a massive amount of short-term securities from being issued at a time when the municipal-debt market is only slowly reviving from last month’s turmoil, which has starkly reduced the pace of new bond sales as many large deals are put on hold.

John Mousseau, the chief executive officer of Cumberland Advisors, said the Fed’s direct lending will help guaranty that the “market will not seize up,” which could in turn take pressure off of longer-dated securities as well.

The Fed said in a statement Thursday that it would continue to watch conditions in the municipal market to see if further action is needed. That fits with the central bank’s typical approach to wading into new asset classes, said Sean Simko, head of global fixed-income management at SEI.

"What we've noticed from the Fed is that they do like moving in steps — they're taking it in a measured pace," Simko said. "It wouldn't surprise me if they would come into the market with a step two or step three if needed."

Bloomberg Markets

By Amanda Albright, Fola Akinnibi, and Danielle Moran

April 9, 2020, 8:35 AM PDT Updated on April 9, 2020, 11:20 AM PDT

— With assistance by Alexandre Tanzi

'Where No Fed Has Gone': Wall Street Reacts to Muni-Debt Program

The Federal Reserve on Thursday said it will lend as much as $500 billion to states and the biggest counties and cities, making its first direct move ever into the $3.9 trillion municipal-debt market to help limit the financial fallout of the coronavirus pandemic.

The step will help governments cover the shortfalls they are facing because of the vast shutdowns sweeping over much of the country and prevent waves of short-term borrowing by localities sold to plug budget holes from potentially destabilizing the public markets.

The move was broadly welcomed by Wall Street analysts, municipal bond investors, underwriters and lobbying groups, even though it fell short of buying already-issued debt as some had sought. Moreover, it's only open to cities with a population above 1 million and counties with 2 million or more, limiting its direct effect on local governments to the 26 that are big enough to qualify, based on Census figures.

Bank Analysts' Views

- Municipal strategists at Barclays Plc said that the program is a "positive development" because it will relieve pressure on the new-issue market, though it "probably falls well short of investor expectations." The group led by Mikhail Foux, predicts eligible governments will tap the program "aggressively," with the tax revenue of states and local municipalities expected to drop by $350 billion or more.
- Bank of America analysts Yingchen Li and Ian Rogow said the move is "broadly positive for muni market" since it should lower interest rates and improve investors' confidence, likely resulting in lower risk premiums. The group estimates the Fed could purchase as much as $268.2 billion of notes directly from the 50 states and Washington D.C., based on the limits included in the program.
- Jeffrey Lipton, head of municipal research at Oppenheimer & Co., said "the Fed is going where no Fed has gone before" and he expects that it will be followed by other operations directed at the municipal-securities market. Lipton said further thought has to be given to the efficacy of what he called a "short-term fix" and is skeptical of the long-term impact on credit.
- Eric Kazatsky, municipal strategist for Bloomberg Intelligence, said the Fed's entry on the short end of the market could cloud the pricing of risk for borrowers like Illinois, which is on the cusp of junk. "While the Fed's deeper involvement is welcome news to those in municipal finance, potential for disruption in credit spreads in the front end of the curve is a real possibility."

Buyers Weigh In

- The Fed's decision is positive and will provide state and local government with liquidity to get through what is a very difficult time, said Matthew Norton, co-head of municipal portfolio management at AllianceBernstein. "I think the Fed will do whatever it takes," he said. If the market needs more liquidity they certainly would step up and do so as they have in other asset classes."
- Jim Evans, the chief investment officer for fixed-income at Parametric Portfolio Associates, said that the Fed is looking for states to make decisions for smaller entities in order to fully vet their needs. That vetting "encourages issuers that can access markets to do that in the normal market channels and not use this facility," he said.
- Still, some investors said that more action may be needed. RJ Gallo, senior portfolio manager at Federated Hermes, said he was disappointed that the Fed wouldn't buy municipals in the secondary market like it's doing with corporate bonds. "Perhaps that may evolve in the future if this program fails to provide sufficient capital and liquidity support," he said.
- Thomas Graff, a portfolio manager at Brown Advisory, said the lending program won't help cash-strapped not-for-profit hospitals and nursing homes that are reeling from the impact of the virus. He said a more broad purchasing program could help those credits. "Ultimately that would help a wider range of issuers, including non-profit hospitals and nursing homes."

Lobbyists Want More

- Lobbying groups for state and local governments had pressed the Fed to wade into the market in light of the sell-off last month. Mike Nicholas, CEO of the Bond Dealers of America, said the group representing banks and dealers welcomed the new program but wants the Fed to provide support as needed to the secondary market. "We are looking particularly at how smaller issuers will access the facility," Nicholas said in a statement.
- The American Securities Association, a lobbying group that represents regional financial services firms, said the program "misses the mark" for smaller local governments. "These areas represent the heartbeat of America and for some reason the Fed and Treasury have chosen to exclude them while backstopping the largest cities, which doesn't make any sense," CEO Chris Iacovella said in a statement.

Bloomberg

By Danielle Moran and Amanda Albright

April 9, 2020, 12:25 PM PDT

— With assistance by Fola Akinnibi

Soaring Bond Yields Drive States, Cities to Buy Back Own Debt.

- **Ohio, Pennsylvania buy hospital debt after market selloff**
- **Yields on variable-rate munis have fallen but still above norm**

Investors' swift retreat from a key corner of the municipal-bond market is causing state and local governments to take matters into their own hands.

Governments are wading into the variable-rate market to drive down borrowing costs on the bonds with interest rates that reset daily or weekly. The municipal-bond market's steep sell-off last month led yields on the debt to surge as money managers dumped them to raise cash, costing municipalities as they were facing higher expenses from battling the spread of the coronavirus.

The steps by officials to buy back some of their localities' own debt signal some concern about the health of the state and local bond market even after the Federal Reserve last month included purchases of variable-rate debt as collateral as part of its lending program for money market funds. Yields on an index of the securities fell 2.9 percentage points on Wednesday to 1.83%, still higher than the 0.92% that the index has averaged over the last five years.

Continue reading.

Bloomberg Markets

By Amanda Albright and Romy Varghese

April 7, 2020, 6:18 AM PDT

Small, Mid-Sized Cities Currently Cut Out of Direct Coronavirus Funding.

With tax revenues down sharply, all local governments are hurting. But leaders of small and mid-sized jurisdictions in particular are arguing that they need more support.

The massive coronavirus relief package President Trump signed into law at the end of last month includes a $139 billion pot of money meant to help states and local governments in dealing with the disease outbreak.

But smaller- and mid-sized cities and counties won't get direct access to those funds.

While these smaller governments could get some money from other parts of the package or from "pass-throughs" from states or bigger counties, local officials say the federal government is going to need to provide far more financial support to help them weather the public health crisis.

A group of Democratic lawmakers in the U.S. House on Tuesday put forward a bill that would move in this direction by allotting $250 billion in local government aid for smaller jurisdictions.

And on Wednesday, House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer issued a statement outlining Democratic priorities for an "interim" coronavirus package. As part of it, they are calling for an additional $150 billion that could be used to help state and local governments "mitigate lost revenue" from the crisis.

"We need relief," said Vince Williams, the mayor of Union City, Georgia, which is located southwest of Atlanta and has about 22,000 residents. "This is something that's going to cripple a lot of municipalities."

"Especially smaller cities, we're going to have issues when people can't pay their property taxes," Williams added. "They won't be able to pay their liquor license fees, business licenses. Everything is going to hit us all at once, once all of this passes."

In general, advocates for state and local governments and some public finance experts echo Williams' point. They say that federal help for the states and localities is so far woefully insufficient to cover the escalating costs associated with the public health crisis and the expected tax revenue declines from the economic downturn the outbreak has caused.

The law that Trump signed last month was the third legislative package lawmakers have passed to address the pandemic. A section of it creates a $150 billion Coronavirus Relief Fund to provide payments to local governments with populations over 500,000 and to states.

Each state is guaranteed a payment of at least $1.25 billion from the fund, with money provided to local governments within their borders subtracted from the total that is allocated to them. The amount made available to each state will vary based on their populations. While the fund is $150 billion in total, $8 billion is set aside for tribal governments and $3 billion for territories.

The law specifies that this money has to be spent on “necessary expenditures” due to the public health emergency, incurred between March 1 and Dec. 30, 2020. Eligible costs are also supposed to be previously unbudgeted or unplanned.

Nan Whaley, the mayor of Dayton, Ohio, called it “incredibly concerning” that her city of 140,000 residents, along with other mid-sized municipalities in Ohio like Toledo, Akron and Youngstown, are boxed out of direct payments from the relief fund.

A Congressional Research Service report published last week estimates that Ohio will receive $4.5 billion from the relief fund and that five counties there are eligible for about $775 million.

Whaley said Dayton would fight for some of the state’s cut, but doubts the city will see any of it. “If you give the state money, they’re going to take care of themselves first. And there’s probably not going to be any money left for the cities,” she said. “These pass-throughs don’t work.”

Montgomery County, which surrounds Dayton, appears to meet the 500,000-person population threshold requirement, but Whaley is also skeptical that those dollars will flow to her city.

She and others are now looking towards the possibility of a fourth federal relief package and say that it should include a program that provides federal aid payments directly to small- and mid-sized cities and other local governments.

Michael Gleeson, the National League of Cities’ legislative manager for finance, administration and intergovernmental relations, said the population cutoff for jurisdictions to qualify for the relief fund was among the big issues for the group currently on Capitol Hill. “There are a lot of smaller cities, towns and villages that could be shut out from direct access to federal aid,” he said.

NLC has said that 36 cities meet the population threshold, and together may be eligible for up to an estimated $8.2 billion of direct funding, ranging from about $90 million for Fresno, California to $1.5 billion for New York City.

Hadi Sedigh, chief innovation officer for the National Association of Counties, said the hope is that some of the relief fund dollars would flow down from states to smaller counties.

“Based on our understanding of the intent of Congress, this state stabilization fund was generally intended to provide fiscal support for the recovery of state and local governments of all sizes,” he said. “It has some specific, direct paths for counties of 500,000 or more residents.”

“The calling out of that path doesn’t necessarily need to make a statement about how much of the money should go to those smaller counties,” Sedigh added.

Sedigh noted that NACo represents 3,000 counties of all different sizes and that roughly 130 of them appear to meet the population threshold to qualify for direct funding.

It’s possible but uncertain, he said, that Treasury Department guidelines could establish some standards for how states distribute the money they get from the relief fund to local governments. Treasury did not respond on Tuesday to emailed questions about guidance for the fund.

There’s clearly an appetite for more relief funding at the state and local levels.

In Colorado, Gov. Jared Polis, along with representatives for county and municipal groups, signed onto a letter last week urging the state’s congressional delegation to back at least $500 billion in aid for state and local governments—including those with populations below 500,000.

Rep. Joe Neguse, a Colorado Democrat, is one of the sponsors of the new House bill that aims to provide additional funding to local governments. Neguse’s office noted that mid-sized municipalities in his district, like Boulder, Fort Collins and Loveland, are too small to have access to direct funds through the existing Coronavirus Relief Fund program.

The bill that Neguse and at least three other Democratic lawmakers are backing would make $250 billion available specifically for local jurisdictions with 500,000 people or less.

NLC has been working with staff for the lawmakers who are supporting that bill, and one of the advocacy group’s goals is to get direct federal aid funding for localities with populations under 500,000 people included in the next federal relief package.

Williams, the mayor in Georgia, said it is not clear to him yet whether he would have to go through the county where Union City is located, or the state government, to try to secure money from the relief fund. But either way, he’s dissatisfied with the status quo. “I’m totally opposed to them leaving this as only cities of 500,000 or more will get direct funding,” the mayor said.

Michael Wallace, NLC’s legislative director for community and economic development, said that it has been clear that the $150 billion relief fund would not provide enough assistance for states and localities to get through the public health crisis.

“Small towns, very small cities and towns, are having to do the exact same things cities over 500,000 are doing. It’s just a different scale,” he added.

The legislation that created the fund—the Coronavirus Aid, Relief, and Economic Security, or CARES, Act—does also contain other provisions to help state and local governments.

For instance, there’s $25 billion for transit infrastructure grants, $5 billion for Community Development Block Grants and $4 billion for homeless assistance grants. The bill also opens the door for around $454 billion to go towards Federal Reserve initiatives designed to bolster lending to eligible states and municipalities, as well as businesses.

Wallace described the CARES Act as good legislation for helping communities deal with the immediate economic blow that the coronavirus has dealt. But the financial challenges for state and local governments keep stacking up as the virus outbreak drags on.

Across the country, authorities have ordered a range of business to shut their doors and are urging people to stay at home as much as possible, as the nation battles the spread of Covid-19, the highly contagious respiratory illness the virus causes.

With businesses closed and unemployment skyrocketing, government revenues like sales and income taxes are expected to drop sharply compared to projected levels.

“Think about all the sales taxes we’re going to miss,” said Williams, the Union City mayor.

Meanwhile, local governments are covering costs tied directly to the public health response, as well as trying to assist small businesses and renters. They’re also waiving fines and fees and granting leeway on utility payments to reduce financial pressure on residents.

“All of these things are good public policy, but all of them negatively impact local budgets,” Wallace said. “Every kind of revenue is down,” he added.

A plain reading of the language in the CARES Act doesn’t seem to provide flexibility for states and localities to use the relief fund money to backfill lost tax revenues. NLC’s Gleeson said that, based on what he’s hearing, that’s the way that the Treasury Department sees things as well.

This stands in contrast to the “mitigate lost revenue” wording that Pelosi and Schumer used to describe the additional state and local aid that they proposed on Wednesday.

Tom Kozlik, head of municipal strategy and credit with Hilltop Securities suggested in a brief last week that federal lawmakers will need to deliver a fourth relief package that includes at least an additional $300 billion to $600 billion of “unencumbered aid” for state and local governments.

Like other cities in Ohio, Dayton relies heavily on income taxes. When people aren’t working, Whaley said, it undercuts revenue and hampers the city’s ability to provide services. The virus has dealt at least a temporary blow to Dayton’s municipal workforce. Whaley said the city has furloughed the equivalent of 479 full-time employees of its roughly 1,900 workers.

The mayor said she hadn’t seen figures yet for how severely the outbreak will affect tax collections. But asked about what spending cuts the city might make to offset revenue declines, she said Dayton’s budget was already stretched tight. “There is nothing to cut but police, fire, and trash,” Whaley said. “There’s nothing left. And that’s the challenge.”

It’s a similar story elsewhere in Ohio, she added, noting that cities received less support from the state after the last recession and that the job market in Dayton still hadn’t recovered to pre-2009 levels.

“One of the things this pandemic is displaying,” Whaley said, “is where we have not invested in the safety net, and where we don’t have depth of government services anymore.”

Route Fifty

by Bill Lucia

APRIL 8, 2020

Client Alert: Federal Reserve Creation of a Municipal Liquidity Facility

Effective April 9, 2020, the Federal Reserve created a Municipal Liquidity Facility (the “Facility”) to purchase state and local municipal debt. The Municipal Liquidity Facility was authorized pursuant to Section 13(3) of the Federal Reserve Act and will provide lending to states and cities with populations over 1 million, and counties with populations over 2 million using funds appropriated under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), enacted March 27, 2020. The terms described herein may be adjusted by the Board of Governors of the Federal Reserve System (the “Board”) and the Secretary of the Treasury, which such changes will be announced on the Board’s website.

Lending Under the Facility. The Federal Reserve Bank (the “Reserve Bank”) will lend money to a Special Purpose Vehicle (“SPV”) on a recourse basis and the SPV will purchase Eligible Notes directly from Eligible Issuers at the time of original issuance. The Reserve Bank will be secured by all of the assets of the SPV. The Department of the Treasury will make an initial $35 billion equity investment in the SPV in connection with the Facility. The SPV will have the ability to purchase up to $500 billion of Eligible Notes.

Eligible Notes. Eligible Notes are TANS (tax anticipation notes), TRANS (tax and revenue anticipation notes), BANS (bond anticipation notes), and other short-term notes with a maximum maturity of 24 months from the date of issuance. Each note’s eligibility will be subject to review by the Federal Reserve and will require relevant legal opinions and disclosures, as determined by the Federal Reserve, prior to purchase.

Eligible Issuers. An Eligible Issuer is a state, city, or county, or an instrumentality that issues on behalf of a state, city, or county for the purpose of managing its cash flows. ONLY ONE ISSUER PER STATE, CITY, OR COUNTY IS ELIGIBLE. However, an Eligible Issuer may use the proceeds of its purchased notes to purchase similar notes or otherwise to assist political subdivisions or instrumentalities of the relevant state, city, or county for the uses specified below.

Limitations. The Federal Reserve limits the amount of purchase to one or more issuances up to an aggregate of 20 percent of general revenue or utility revenue from the state, city, or county’s own sources, measured by fiscal year 2017 revenues. States may request purchases in excess of the limit to assist political subdivisions and instrumentalities not otherwise eligible for the facility.

Terms of the Notes. Pricing will be based on the issuer’s rating at the time of purchase with details to be provided later. The notes are callable at any time at par.

Fees. There is an origination fee of 10 basis points of the principal amount of notes purchased, payable from note proceeds.

Uses. The proceeds of the notes may be used to help manage the cash flow impact of income tax deferrals, the potential reduction of tax, and other revenues or the increases of expenses resulting from Covid-19, and debt service payments on obligations of the relevant state, city, or county.

Termination Date. The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board of Governors of the Federal Reserve System and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV’s underlying assets mature or are sold.

April 9 2020

Shumaker Loop & Kendrick – Sheila Kles

The Fed Will Buy State and Local Muni Bonds. It Might Not Cover the Virus Shortfall.

State and local governments will get budgetary breathing room from the Federal Reserve to cover at least some revenue lost in coronavirus-related shutdowns, but likely not enough to fully plug shortfalls.

The Fed's program, called the municipal liquidity facility, can directly buy up to $500 billion in municipal bonds from states, cities with more than one million people, and counties with more than two million people. That means the program isn't open to most local governments as there are only 10 cities and 16 counties in the U.S. that meet the Fed's criteria. Each muni-bond issuer must obtain Fed approval to use the facility, and states can ask the Fed to lift their borrowing caps on behalf of smaller municipalities and other entities that are ineligible.

State and local governments will be able to sell only bonds maturing in two years or less to the Fed. Each transaction's pricing will depend on the credit rating of the state or municipal government at the time of the bonds' purchase, according to the central bank's term sheet.

It isn't clear whether the $500 billion will be enough to cover the shortfall that state and local governments will face from the pandemic. The answer to that question depends on the size of the budget gaps that remain once Congress's $150 billion appropriation for coronavirus relief for domestic governments is taken into account.

There is a threshold for Fed success, however: The Fed's facility will be able to cover municipalities' budget gaps if they lose no more than 20% of their normal tax revenues.

Here's why: The Fed says it will buy new municipal notes worth up to 20% of each municipality's 2017 revenues, the most recent data available, excluding intra-governmental transfers and including utility revenues. For state and local governments across the entire country, those revenues added up to nearly $2.6 trillion in 2017. And 20% of that total is $515 billion, only a slightly larger sum than the $500 billion of financing the Fed will make available.

In other words, if state and local governments lose nearly 20% of one year's revenues from income taxes, property taxes, sales taxes and utilities, the Fed should be able to lend them money to cover all of that with a two-year loan.

But once that two years is over, the municipalities will need to either refinance their Fed-owned notes with bonds, or hope that the economy has recovered enough to repay the principal.

What's more, some Wall Street strategists don't think the program will even be enough to patch up the hole that the coronavirus will create near-term state and municipal budgets.

"This program does not plug state government budget gaps," wrote Goldman Sachs. "We continue to expect Congress to provide [an additional] $100-200bn in fiscal aid."

Barron's

By Alexandra Scaggs

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Write to Alexandra Scaggs at alexandra.scaggs@barrons.com

Fed to Buy Municipal Debt for First Time, Underscoring Peril Facing Cities.

The central bank is targeting short-term debt because states and cities nationwide have seen an alarming drop-off in revenue.

The Federal Reserve will directly buy bonds issued by states and cities for the first time, in a move that highlights the danger faced by local governments as the fallout from the coronavirus pandemic slams their budgets.

The Fed said Thursday it would purchase up to $500 billion in short-term municipal debt to ease turmoil in the market. It was part of a slew of emergency facilities totaling more than $2 trillion that the central bank unveiled, mainly to boost small and medium-sized companies that are especially vulnerable to a severe economic slump.

The central bank is targeting short-term debt because states and cities nationwide have seen an alarming drop-off in revenue as businesses shutter due to the virus outbreak. Job losses have cut deeply into sales tax income, with the federal government announcing Thursday that more than 16 million Americans have filed jobless claims in the last three weeks. A shift in the federal tax deadline also created unexpected holes in local budgets as officials chose to delay their own deadlines in tandem.

“This is a significant move by the feds to enter the municipal market and in a pretty big way,” said Micah Green, a partner at Steptoe & Johnson and former co-head of the Securities Industry and Financial Markets Association. Still, he said, “There’s much more to be seen as to what role, if any, they will play in the longer-term debt market, which would be an even further step of unprecedented activity by the Federal Reserve.”

The Fed has come under increasing pressure to help out municipalities, but it has long resisted that because of concern about getting involved in political issues that come along with local financing decisions. But now it is skirting the need to make political decisions about which debt to buy by setting up a program under its emergency powers that will allow any state or large city that meets the qualifications to participate.

Federal Reserve Chair Jerome Powell said in February at a House oversight hearing that the Fed has “limited authority” to buy short-term municipal debt and historically hasn’t waded very deeply into state and local government finance. And nine years ago, then-Chair Ben Bernanke told the Senate Budget Committee that “we have no expectation or intention to get involved in state and local finance,” as local budgets were flailing after the Great Recession.

Regulators sounded a different note today, saying the emergency lending would be accessible to states and the District of Columbia, as well as cities with populations over 1 million residents and counties with populations over 2 million residents. The Treasury Department will use $35 billion from the stimulus package enacted in late March to cover any losses from states or cities that default.

Eligible kinds of debt include tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes and “other similar short-term notes” with maturities no longer than 24 months.

Generally, those kinds of notes allow governments to access a larger amount of money upfront in the form of debt instruments using estimations of future revenue. Each debt issuance will be subject to Fed review.

Total debt issuance will be capped at 20 percent of the “general revenue from own sources and utility revenue” of each government applying for the aid, based on fiscal year 2017, the Fed said.

Some issues to watch as this facility rolls out include which individual states the central bank will allow to seek debt purchases in excess of the cap, an exception it provided to help ineligible governments access credit. And the Fed said in its announcement that pricing details for issuing this debt will be provided later.

Analysts and research groups have cited Tennessee, Illinois and New Jersey as among the states at particular risk in the downturn, citing a heavy dependence on sales tax revenue, low level of reserves or high levels of debt.

“We are hopeful this facility will provide needed help to municipal issuers,” the Bond Dealers of America, a Washington-based trade group representing banks and securities firms active in the bond market, said in a statement. “We are looking particularly at how smaller issuers will access the facility.”

Looking beyond the short-term lending action, the Bond Dealers of America urged the central bank “to use its CARES Act authority to provide support as needed for the secondary market for municipal bonds — providing much needed liquidity, benefiting the overall market,” referring to the stimulus bill that President Donald Trump signed into law last month.

Bolstering state and local balance sheets will help the secondary market, but the Fed clearly left open the possibility of broader action, according to its announcement.

“The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments,” the central bank said.

Unless extended, purchases established by this facility cease on Sept. 30, 2020.

POLITICO.COM

By KELLIE MEJDRICH and VICTORIA GUIDA

04/09/2020 06:52 PM EDT

Muni-Bond Market Reviving After Fed Moves to Ease Cash Crunch.

(Bloomberg) — The Federal Reserve is helping revive the $3.9 trillion municipal bond market.

Underwriter Raymond James Financial Inc. estimates that as many as 200 new negotiated state and local debt offerings will price over the next few days, almost double the amount issued last week, fixed-income strategist Kevin Giddis said in a note to clients.

That would mark a turnaround for a segment of the capital markets that had virtually shut down after concerns about the coronavirus prompted a series of steep sell-offs last month when investors pulled out their funds. The market has since been steadied, with the Federal Reserve last month moving to increase liquidity for money-market funds and last week rolling out a plan to lend as much as $500 billion to states and local governments to help them avoid a cash crunch in the middle of the pandemic.

Since March 9, there have only been about $15 billion of new municipal bonds issued, a drop of 56% from the same period a year earlier. Many big sales have been placed on so-called day-to-day status, meaning underwriters will sell them when market conditions warrant.

“This improvement in issuance is largely due to the Fed and Treasury’s unprecedented support for these markets and it appears to be working,” Giddis wrote.

Bloomberg Markets

by Danielle Moran

April 13, 2020

Complimentary Resource for NFMA Members.

IMTC’s NOVA platform is a cloud-based fixed income portfolio management tool designed to help investment professionals save time and focus on high-value work.

During the Coronavirus crisis, IMTC is providing investment managers with free fixed income market data to combat the WFH struggles brought on by legacy technology systems.

Benefits of IMTC’s Market Data:

- Access over 1m Municipal bonds with complete pricing and reference data
- Gain insights into rating changes and market movements
- Identify relative value or source liquidity with comparable bond functionality
- Accomplish in-depth credit analysis with access to issuer financial statements

If you or a colleague is interested in learning more about our free market data offering, please follow the link to get in touch: click here (or cut and paste https://imtc.com/contact into your browser).

Capitol Hill Update: Infrastructure Push Slowed

Congress Turns Focus Back to Direct Funding to Cities

Last week, the House of Representatives announced its push to include a massive infrastructure package into a future “stimulus phase 4” bill. This idea ran into strong Republican push-back in the Senate, and seems to have been tabled for the potential April stimulus legislation.

This week, both Chambers seem to be coalescing around the idea of more direct funding to cities, particularly smaller cities that were left behind in “phase 3,” and the potential for another round of checks to qualified Americans.

While a major infrastructure package now seems unlikely, the BDA and our partners in the issuer community continue to push for member priorities in the potential phase 4 package including:

- The restoration of tax-exempt advance refundings
- Increase in the cap for bank qualified debt;
- Expansion of the use of Private Activity Bonds; and
- Potential exploration of the reinstatement of direct-pay bond and ending exposure to sequestration.

Administration Considering “Coronavirus Bonds”

Yesterday, Larry Kudlow, Director of the National Economic Council teased an idea of Treasury creating a long duration Coronavirus bond program equivalent to a war-bond to help spur the economy. While Congress has yet to adopt this thinking, the administration continues to look at long-term paper options if the initial $2 trillion dollar stimulus package fails to deliver enough economic punch.

The BDA will continue to provide updates as they become available

Bond Dealers of America

April 7, 2020

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

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

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

How This Could Work

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

Continue reading.

Forbes

Javier Hasse

Apr 7, 2020

Aging Populations Strain State Budgets, Pension Funding Varies.

Link to Fitch Ratings' Report(s): Demographic Trends and Pension Pressures (Aging Populations and Underfunded Pensions May Present Fiscal Challenges for States)

Fitch Ratings-New York-25 February 2020: The aging US population poses a range of challenges to state finances, including providing pensions for the swelling ranks of retired public workers. However, a state's demographic profile does not necessarily determine its pension funding, Fitch Ratings says. States with weaker demographic profiles are likely to face slower revenue growth and expenditure pressures but some of these states have maintained an approach to pension funding that alleviates pension pressure.

The population profiles of pension systems are aging, with the number of retirees drawing benefits growing, even as the number of active workers lags behind. For many plans, the number of retirees now exceeds the number of active employees. As states see populations age, revenue growth prospects slow and demand for services climb the concurrent demand for higher pension contributions in order to address underfunding may limit fiscal flexibility.

Fitch's report assesses these pension burdens and demographic trends and differentiates states based on their position relative to 50-state medians, highlighting examples that illustrate the nuances of states' funding considerations and the importance of sustained policy actions in managing the trajectory of pension burdens over time.

States are categorized by their position above or below the median projected labor force growth of 0.12% annually over the 2017-2026 period as projected by the US Census, and the median pension burden, which Fitch defines as the ratio of state net pension liabilities adjusted to a standard 6% discount rate as a percentage of personal income. The median pension burden measured 3.1% in 2018. Quadrants created by this comparison indicate whether states are well placed to manage their pension obligations based on the size of the liability and their active population.

States with the twin challenges of weaker demographics and higher underfunded pensions are arguably more vulnerable to fiscal pressures over time. Dominated by those in the Northeast and Midwest, many of these states are aging faster than the median, with a rising share of the population aged 65 and older, and barely growing or even declining working age populations. Some states within this quadrant, however, have shown commitment to pension funding that has resulted in an improved funding status.

An equal number of states are in the relatively more favorable situation of having both stronger demographic trends and carrying relatively lower pension burdens. Fiscal vulnerabilities stemming from either demographic trends or pension contributions pressures are likely to be lower for states in this quadrant. Pensions are either well funded, or if not, represent a smaller burden relative to the state's wealth base.

The remaining states in the other two quadrants either have solid demographic trends but higher pension burdens, or lower pension burdens, despite weaker demographic trends. While still vulnerable based on weakness that could hamper full pension funding, these states arguably retain more fiscal flexibility than those in the upper left quadrant.

Most governments have taken steps to shore up their pensions by shifting to more reasonable assumptions, increasing contributions to the actuarial level and cutting future benefits for new workers. These corrective actions have less of an effect in the context of maturing pension systems. The problem is magnified for states in which pensions are a material burden relative to the state's resource base.

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Bonds Backed By Special Taxes Hit By Virus, Moody's Says.

The economic slowdown resulting from the COVID-19 pandemic will challenge state and local governments to service their municipal bonds, especially those secured by taxes on hospitality, travel and leisure businesses, a report by Moody's has said.

Tax revenues from hotel occupancy and restaurant sales are the most vulnerable to the slowdown, with monthly collections expected to fall by up to 85% through midsummer and not recover until March 2021, the report issued Monday by Moody's Investors Service said.

Sales and income tax revenues will decline to a lesser extent because they rest on broader tax bases, the report added.

Municipal special tax revenue will be sharply curtailed by "unprecedented restrictions" on social interaction and travel, the report said. The downturn will be especially strong in economic areas connected to the hospitality industry: hotels, casinos, car rentals, parking, and food and beverage services, it said.

Declines in consumption will be marginally offset by federal stimulus measures such as the Coronavirus Aid, Relief and Economic Security Act, it said.

Most bonds backed by special taxes have a reserve for debt service that boosts their creditworthiness against a temporary tax revenue shortfall, Moody's said.

If state or local governments lack the reserves to make bond payments, their willingness to cover any shortfalls can boost a bond's ratings, the report said. A parent government's willingness to step in is not guaranteed, however, and depends on political factors and others that are unpredictable, the report said.

How long the decline lasts depends on the steps taken to contain the virus, Moody's said. It has already projected a 4.3% decline in the U.S. economy for the first two quarters of 2020 and a 2% drop for all of 2020, it said.

A Moody's representative did not respond to requests for comment.

State and local governments have reported tax revenues declining due to the COVID-19 pandemic. New York state's tax receipts will fall by at least $4 billion for the 2020-21 budget year, Comptroller Thomas P. DiNapoli said in March. A more severe decline in stock markets or a sharp recession could lower revenue by up to $7 billion, he said.

Florida also faces a decline in sales tax revenues as business for its tourist attractions dries up from the COVID-19 pandemic. The state will need to draw from its $4 billion reserve fund to make up the shortfall, a sales tax compliance expert recently told Law360.

Law 360 Tax Authority

By David Hansen · April 1, 2020, 6:03 PM EDT

–Editing by Robert Rudinger.

S&P: Outlooks Revised To Negative On Transportation-Related GO Special District Ratings Due To COVID-19, Global Recession

CENTENNIAL (S&P Global Ratings) March 31, 2020–S&P Global Ratings revised its outlook to negative from stable on several long-term and underlying general obligation (GO) ratings. The affected ratings consist primarily of debt secured by ad valorem property tax revenue, issued by special districts that have transportation-related operations, regardless of the purpose of issuance. These issuers include airport authorities, port districts, and mass transit operators. The negative outlooks provide notification to market participants that the affected credits face at least a one-i--three likelihood of a negative rating action over the intermediate term (generally up to two years).

This action applies to the ratings of 18 issuers, and 86 issue level ratings.

Continue reading.

S&P: All U.S. Public Finance Sector Outlooks Are Now Negative

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Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. At the start of 2020 all sector outlooks were stable with the exception of higher education, ports, and mass transit. The shift in our outlooks to end the first quarter reflects the expectation of sharp decline in the economy through at least the second quarter and uncertainty about the rate of spread and peak of COVID-19 as well as the timing of economic recovery.

Sector outlooks are an indication of credit trends in the year ahead and may be informed by existing outlook distributions or existing and emerging risks that could influence rating actions. By themselves, we do not expect that these sector outlook revisions will lead to immediate issuer- or issue-specific negative rating actions. However, given the confluence of events from COVID-19 and the ensuing recession, we believe that rapid expenditure increases and precipitous revenue declines will generate more negative than positive rating actions across U.S. public finance for the remainder of 2020.

The financial position of governments and not-for-profits was generally healthy at the beginning of the year, which we believe provides flexibility to respond to the evolving situation. However, we see real fiscal challenges ahead across all sectors (see table 1). The rapid onset of the recession with projections of sharp GDP decline, surging unemployment, and decreased consumer spending will pressure credit quality.

Continue reading.

S&P: Outlooks On Certain U.S. Convention Center And Sports Authorities Revised To Negative From Stable On COVID-19 Impact

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- Key Takeaways
- As Events Are Cancelled Or Pushed Off To Later Dates, Revenue Streams Suffer
- Length And Severity Of Impact Are Largely Out Of Authorities' Control

FARMERS BRANCH (S&P Global Ratings) April 1, 2020–S&P Global Ratings revised the ratings outlook to negative from stable on certain U.S. convention center and sports authorities in the wake of the COVID-19 pandemic. The negative outlooks provide notification to market participants that the affected entities face at least a one-in-three likelihood of a negative rating action over the medium term (generally up to two years). At the same time, S&P Global Ratings affirmed its ratings on the entities.

“The negative outlook reflects our belief that the advent of “social distancing” and subsequent cancellations of major events, as well as material declines in travel and closing of businesses in response to the global spread of COVID-19, have affected, and will negatively affect convention center and sports authorities’ revenue streams,” said S&P Global Ratings credit analyst Andy Hobbs. The current negative outlooks are reflective of entities where the operating risk is associated with the particular convention center or sports authority. S&P Global Ratings recognizes that 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 the new coronavirus, the longest economic expansion in U.S. history has come to an abrupt end. The toll on GDP will be far more severe than we once thought–with the contraction showing up in the first-quarter figure and worsening substantially in the April-June period. (see “It’s Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain ,” published on March 27, 2020, on RatingsDirect).

Continue reading.

Fitch U.S. Water and Sewer Rating Criteria.

This criteria report details Fitch Ratings’ methodology for assigning Issuer Default Ratings (IDRs), Standalone Credit Profiles (SCPs),and issue-and obligation-specific ratings to U.S. municipal water and sewer (including wastewater and stormwater) utilities, whether operating as a stand-alone legal entity or an enterprise of a local government. This rating methodology also applies to certain municipally owned combined utilities, for which water and sewer revenue accounts for, or is expected to account for, the largest share of total revenue on an ongoing basis.

Read the Report.

April 3, 2020

Fitch U.S. Public Power Rating Criteria.

This criteria report details Fitch Ratings’ methodology for assigning Issuer Default Ratings, (IDRs), Standalone Credit Profiles (SCPs) and issue- and obligation-specific ratings to U.S. public power utilities, including electric systems that are municipally or federally owned, and electric cooperatives.

Read the Report.

March 30, 2020

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