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Municipal, Corporate Equity and Corporate Debt Pre-Market Activity Climbs Following September Slump.

"CUSIP request volume for October is consistent with the trend toward increased levels of capital markets activity we've been seeing throughout most of the second half of the year," said Gerard Faulkner, Director of Operations for CUSIP Global Services. " While we did see a great deal of volatility in the CUSIP indicator in the early months of 2018, current readings suggest we'll see a relatively healthy volume of new securities issuance as we make our way through the fourth quarter."

Read Press Release.

Fitch Ratings: Has Acute Care Peaked for U.S. NFP Hospitals?

Fitch Ratings-Austin-15 November 2018: With acute care operating profitability set to decline for a third straight year, questions are being raised among some U.S. not-for-profit hospital investors as to whether acute care has peaked or if there's room for improvement, according to Fitch Ratings in a new report.

In response to falling profitability, large system providers are planning some basic cost-cutting, elimination of waste and rethinking how healthcare is delivered to fall in line with Medicare rates. Smaller providers, however, are at a competitive disadvantage according to Senior Director Kevin Holloran.

"Smaller hospitals are characteristically less able to trim expenses and typically unable to negotiate higher rates from commercial insurers in their markets," said Holloran.

How healthcare will be delivered going forward along with changing reimbursement models are what precipitated Fitch's gradual move away from "classic measures" like maximum annual debt service (MADS) coverage and days' cash on hand and increased emphasis on two new metrics of its NFP hospital analysis: Cash to Adjusted Debt and Net Adjusted Debt to Adjusted EBITDA.

One thing appears clear. Consolidation of NFP hospital systems is set to continue, if not escalate going forward. The quest for increased size and scale, however, has led to some investors asking whether bigger is actually better (a question Fitch plans to answer more substantively in a future report).

"Size and scale are 'better' for a hospital's rating if its enhanced size and scale means improved operations, stronger balance sheets and more market essentiality," said Holloran. "Conversely, a hospital getting bigger just for the sake of getting bigger at time can lead to an initial dip in operating profitability as the two or more organizations come together."

One facility type whose outlook is not encouraging is critical access hospitals. Fitch has a negative outlook for these small inpatient facilities characterized by independent distance from the next closest facility and short stays. “Critical access hospitals have long benefited from higher levels of cost based reimbursement, though even that will likely not be enough to secure a long-term future for these facilities,” said Holloran. These facilities will likely either close altogether or become freestanding centers that perform little more than triage services.

‘What Investors Want to Know: U.S. Nonprofit Hospitals and Healthcare Systems’ is available at ‘www.fitchratings.com’.

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Fitch Ratings: Revenue Continues to Climb for U.S. Water Utilities

Fitch Ratings-Austin-12 November 2018: Growth in annual revenue accelerated for U.S. water utilities over the last year while leverage declined, according to Fitch Ratings in a new report.

Revenue increased almost 5% in the current median cycle with most of the growth again coming from rate adjustments. However, revenues did get a slight bump from increased water sales, which were up about 2% compared to flat sales during the past several years. Sewer flows were also marginally higher, by almost 1%. Conversely, leverage fell 5% for the year after rising 8% with 2018 medians.

“Added debt is expected to represent a manageable 36% of capital resources for water utilities over the next five years, which should limit growth in some key debt metrics,” said Managing Director Doug Scott.

Operating expenses jumped more than 5% with the 2019 medians and rose faster than operating revenues. However, water utilities have mitigated that potential risk by keeping debt carrying costs in check to just 18% of revenues (compared with 20% with the 2018 medians). Days cash on hand also reached a new high of 561 days of operating expenses.

“Liquidity at this level will give water utilities a significant amount of flexibility in meeting their capital funding needs and managing fluctuations in operations,” said Scott.

One area worth a closer look will be aging facilities, which rose to a new peak of 16 years this past period. Capital spending has been in line with 2018 medians at 142% of annual depreciation, but additional spending may be necessary to maintain infrastructure performance.

Fitch's '2019 Water and Sewer Medians' is available at 'www.fitchratings.com'

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Fitch Ratings: Adjusted Net Pension Liabilities Hit $1 Trillion for U.S. States

Fitch Ratings-New York-12 November 2018: Steady increases in the present value of future benefits and lackluster performance in pension assets led to net pension liabilities reaching a noteworthy milestone this past fiscal year for U.S. states, according to Fitch Ratings in a new report.

Fitch-adjusted net pension liabilities (NPLs) surpassed $1 trillion in fiscal 2017 (up from $892 billion in fiscal 2016) and now encompass 3.6% of personal income for states. Fitch recalculates state-reported pension liabilities based on a 6% discount rate for plans using a higher discount rate. The pension liability burden of individual states, combined with bonded debt, varies widely. Illinois tops the list of seven states with long-term liability burdens that Fitch considers elevated (above 20% of personal income) with a highwater mark of 29%. Another eight states carry moderate long-term liability burdens measuring between 10% and 20% of personal income. Conversely, the state with the lowest liability burden is Nebraska at 1.5% of personal income.

"Many of the net pension liabilities that states have comprise pension obligations for non-state employees, usually local teachers, legally carried and directly funded by the state," said Senior Director Douglas Offerman. In fact, nearly all states with the highest pension burdens reflect this dynamic.

Discount rate changes are also proving to have a discernible effect on state pensions with 80 state-reported plans lowering their discount rates from a year earlier. "For such plans, states like Illinois, Kentucky and New Jersey are feeling the effect of insufficient contributions in the form of severely underfunded pensions and rising budgetary demands for pension contributions," said Offerman.

Despite rising NPLs, the median level of tax-supported debt relative to personal income remained virtually unchanged at 2.3% of personal income for fiscal 2017. "States in general remain selective debt issuers and tend to do so primarily as capital needs arise," said Offerman. "As a result, most states will continue to see only gradual shifts in their debt burdens from year to year."

Fitch's "2018 State Pension Update" is available at www.fitchratings.com.

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California Fire Rattles Muni Market as Investors Sell PG&E Bonds.

- **Debt is among the most active in muni market on Wednesday**
- **'My fingernails are down a little bit further today'**

Even the typically calm municipal-bond market can't withstand the crisis that's enveloped PG&E Corp., California's biggest utility, since the outbreak of the state's devastating wildfires.

As authorities investigate PG&E equipment as a possible cause of the deadly Camp fire, the value of some of company's more than $700 million in debt sold through government agencies is slumping. The company's municipal bonds were among the most actively traded municipal securities Wednesday.

A security with a mandatory put option in 2022 traded Wednesday at a price of 86.6 cents on the dollar, down from 94 cents when it last changed hands on Oct. 15, data compiled by Bloomberg show.

Nick Venditti, portfolio manager at Thornburg Investment Management, holds some of the utility's municipal debt and is sitting tight — for now.

"Right now I'm not interested in fire-selling my bonds at the worst price because I think there will be better days ahead for PG&E," he said by phone. But, he added, "my fingernails are down a little bit further today than they were yesterday."

Shares of PG&E Corp. plummeted as much as 23 percent Wednesday after the company said it had exhausted its revolving credit lines, signaling its growing financial stress.

California authorities are investigating PG&E equipment as a possible cause of the Camp fire, the deadliest blaze in state history, burning about 150 miles (240 kilometers) northeast of San Francisco. It has killed at least 48 people, destroyed 130,000 acres and wiped out the town of Paradise.

Bloomberg Business

By Romy Varghese

November 14, 2018, 12:01 PM MST

— With assistance by Jim Efstathiou Jr

What Amazon's HQ2 Means to Local Muni Markets.

Laura Porter, managing director at Fitch Ratings, discusses how Amazon Inc.'s new HQ2 locations could impact the local municipal bond markets and the fate of bond initiatives in the midterm elections. She speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets

November 14th, 2018

Muni-Bond Defaults Show Risk Clustered in Midwest, Southeast.

- **Regions account for the highest share of impaired bonds**
- **'Warning flag' for muni-bond investors looking for new debt**

To find the distress in the municipal-bond market, look to the Southeast and Midwest.

That's the conclusion from Municipal Market Analytics, a research firm that examined state and local government bond defaults by using Bloomberg data and disclosure filings from issuers.

Such lapses are extremely rare, accounting for a minuscule share of the nearly $4 trillion market. But counties in the Midwest and Southeast are home to about 37 percent and 22 percent, respectively, of outstanding bonds that are in default for failing to make adequate payments or for violating elements of the debt contracts. Excluding bankrupt Puerto Rico, about $19 billion of the $31.8 billion in defaulted and impaired bonds are in those two regions.

That share is notable considering the areas together have issued only about one-third of all outstanding bonds.

Continue reading.

Bloomberg Business

By Romy Varghese

November 13, 2018, 4:00 AM MST

Wall Street Muni-Bankers See Dollar Signs With Amazon 'HQ2' Plan.

Wall Street's public finance bankers might be seeing dollar signs after New York City, Nashville and Arlington, Virginia, revealed their billion-dollar plans for Amazon.com Inc.'s new offices.

In letters to Amazon released when the company announced its new sites Tuesday, officials from the three locations emphasized their commitment to financing infrastructure surrounding the online retailer's new offices. Banks that raise money in the $3.9 trillion municipal-bond market — which state and local governments turn to when they finance capital improvements — stand to benefit as a result.

While Arlington County may not be able to finance the helipad that Amazon wants, the county is committed to building out public infrastructure and a "top tier transportation system," it said in its letter. New York City officials said it would create an infrastructure fund for streets, sidewalks, utility work and transportation for the new campus in Long Island City.

Nashville said roads, parks and greenways would be built as part of the new operations center that Amazon is building downtown. The Amazon announcement comes after AllianceBernstein Holding LP moved its corporate headquarters to Nashville, which may prod officials to revisit a $5 billion transportation plan that voters nixed earlier this year.

While none of the three localities explicitly mentioned issuing bonds, cities, counties and public agencies selling bonds for the benefit of corporations and economic development projects has become near-commonplace. New York said it would provide funding for "community infrastructure" through a payment in lieu of taxes program that will collect money from the retailer. Governments frequently sell bonds backed by such revenue.

Even the riskiest of deals have been well-received by the municipal market. So investors will likely be eager to gobble up any debt out of New York City, Arlington County and Nashville for the benefit of the world's third most valuable company.

Bloomberg Technology

By Amanda Albright

November 13, 2018, 9:50 AM MST Updated on November 13, 2018, 9:58 AM MST

Why Losing Out on Amazon HQ2 Isn't So Bad for Cities.

A new study points to evidence that luring a large corporation isn't the best way to spur job growth.

After a yearlong and very public deliberation over the location of its second headquarters, Amazon this week disappointed some policymakers when it announced that it would split HQ2 into two locations, one in New York City and the other in the Washington, D.C., metro area.

In choosing New York and D.C., Amazon opted for two cities that have led the economic expansion since the end of the last recession in 2009, far outpacing the rest of the nation in job growth. The decision drew the ire of politicians at the state and federal levels, along with others who had called on the tech giant to place its second headquarters in a city where it could play a more transformative role in the economy.

Yet a new study from the Urban Institute suggests that landing such a large corporation isn't actually the best way to build a local economy and spur job growth.

Instead, the report says, cities should focus on growing existing local firms, not trying to lure out-o--town companies and poaching firms from other cities. "Most job expansion and contractions come from birth and deaths of homegrown businesses or expansion or contractions of existing home-based businesses," says Megan Randall, a research analyst with the Urban-Brookings Tax Policy Center and a co-author of the report.

When marquee companies move into a new city, they often displace existing firms, like when a big box store puts some mom-and-pop stores out of business. Creating and expanding homegrown businesses has a better track record for adding job growth to a region, the report says.

The competition to land Amazon HQ2 has spurred debate over the generous tax incentive deals cities offer up to attract big corporations. New York City offered some $3 billion incentives to Amazon, and Crystal City, Va., where the company will be located just outside Washington, put up $500 million in tax breaks. But those offers weren't the deciding factor, according to the company. The stronger draw was the highly skilled and highly educated labor force in both cities.

"One of the first things to remember when using tax incentives and any other cash rewards is that they play a relatively small role in attracting businesses," Randall says. "We see that pretty clearly in Amazon's own self-stated priority. They said they wanted to go to a place where they can recruit and hire talent."

Sometimes, tax incentives can even harm the local economy, especially in cities whose finances aren't as rosy as New York's or D.C.'s. Giving up that tax revenue can put a strain on local services, particularly schools. As New York University business professor Scott Galloway put it in an email to Barron's on Tuesday, the tax incentives from New York amount to "an elegant transfer of funds from municipal school/fire/police districts to Amazon shareholders."

Cutting into services and school budgets makes the local workforce less attractive in the long run, and the location less alluring, the Urban Institute report notes. "What is the trade-off? What are the investments that the city or the state can be making to change its long-term economic trajectory?" Randall says.

Cities would be better served, according to Randall and other economic policy analysts, by improving schools and public services, and focusing on nurturing their existing network of businesses.

When a city offers tax giveaways to lure a company, the government goes into the negotiation with a marked disadvantage because of what economists call "information asymmetry." The city doesn't have all the information about what the company is looking for. In some cases, a company may choose a city it would have moved to anyway, pocketing the tax incentives even though they weren't a deciding factor.

"Firms are in a advantageous position," Randall says. "They know cities want to attract jobs and create opportunities for their residents. They know they are in the position to leverage a public benefit from what they have to offer."

GOVERNING.COM

BY J. BRIAN CHARLES | NOVEMBER 15, 2018

The Week in Public Finance: Federal Tax Reform Fuels Record State Spending

Budget directors are still figuring out how much of the tax law's impact on state revenues was a one-time boost.

SPEED READ:

- According to the National Association of State Budget Officers, state spending topped $2 trillion in fiscal 2018, a record high.
- The spending increase is largely driven by higher income tax revenues that resulted from last year's federal tax changes.
- Much of the extra money has gone toward Medicaid and transportation, but education also received significant funding boosts.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 16, 2018

Infrastructure Update: America's Water Infrastructure Act of 2018.

Prospects for a major infrastructure bill are uncertain, but several initiatives at the United States Army Corps of Engineers should facilitate some projects in the energy sector—including ports, terminals, and navigation channels, and a wide variety of linear projects, such as transmission lines and pipelines that interface with federal water projects and thus require approval from the Corps.

America's Water Infrastructure Act of 2018 ("AWIA," aka "WRDA 2018"). President Trump signed America's Water Infrastructure Act of 2018 on September 13, 2018. Primarily focused on the Corps, "water resource development acts" are the vehicles used by Congress—ideally every two years—to authorize federal infrastructure projects for purposes such as navigation, flood control, hydroelectric power, and municipal and industrial water supply. The latest installment, AWIA, is notable for its continued focus on public-private partnerships and regulatory reform. Numerous provisions expand opportunities for non-federal partners to expedite federal projects. Examples include opportunities either to "contribute" or to "advance" funds to expedite construction of federally approved projects, and even to construct projects to be owned, operated and maintained by the Corps.

For example, Section 1153 of the AWIA improves the "Section 204" program, which allows non-federal interests to take the initiative to construct federal water projects that have been approved by Congress, but that have not been funded for construction. Subject to cost-sharing requirements applicable to all federal water projects, costs incurred by the non-federal partner that would have been borne by the Corps are potentially eligible for reimbursement upon completion. While there is some risk that reimbursement will be denied or delayed, this risk may be acceptable for certain critical projects. Because the congressional "authorization" and "appropriations" processes are separate, being controlled by different committees, and because many authorized projects are never funded for construction, this program provides an important new mechanism for non-federal interests to get the job done.

Until now, Section 204 projects have been impeded by a requirement that non-federal “constructors” obtain any applicable permits that would be required of a non-federal party, including permits that would not be required of the Corps. Section 1153 fixes this problem by allowing Section 204 “constructors” to stand in the shoes of the Corps from a permitting perspective. Contracting procedures will be used to ensure that non-federal constructors adhere to all standards or requirements that would apply to the Corps. By eliminating the need to apply for additional permits, however, Section 1153 will significantly streamline the procedure, making Section 204 significantly more attractive. The Corps will issue implementing guidance providing further details.

Reform of the “Section 408” Approval Process. Clients that interact with the Corps should also take note of recent changes to the Section 408 approval process. Section 408 (33 U.S.C. § 408) requires Corps approval before any person can “alter” or “occupy” a federal water project or related “works.” Because federal water projects include extensive real estate holdings, including levee systems and waterways, Section 408 is triggered by many types of projects, including transmission and pipeline projects merely requiring an easement to cross federal lands or navigable waterways. Because the Section 408 approval process is notoriously slow, this program has been a significant obstacle to many private projects.

On September 13, 2018, the Corps issued a new guidance revising and reforming its Section 408 approval procedures. See Engineer Circular (EC) 1165-2-220 (13 Sept. 2018). The new guidance creates “categorical exemptions” for certain types of projects. Other improvements include greater delegation of decisions; introduction of a multi-phased review option for incremental reviews; timelines for written notifications; and procedures to better align and integrate Section 408 with certain reviews conducted by the Corps’ Regulatory Program.

Conclusion

The AWIA and the new Section 408 procedures reflect a broad, bipartisan focus on infrastructure development and regulatory reform. This focus is expected to continue in the new Congress. Other significant regulatory reforms consistent with this focus are also pending, including a full-scale reorganization of the regulatory functions of the Corps and the government-wide “One Federal Decision” initiative to reform environmental review procedures. Clients pursuing major infrastructure projects should track these developments carefully to identify new opportunities.

King & Spalding

November 19, 2018

$20.6 Billion of Bond Sales Backed by Voters in Midterm Election.

Voters across the U.S. were backing at least $20.6 billion of bond sales to support school construction and infrastructure upgrades including road and bridge repairs, led by multi-billio--dollar measures in California. Results are still pending on hundreds of state and local measures.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to data from market research company Ipreo by IHS Markit. It signals an increasing willingness by states and local governments to borrow for needed public works while they reap the financial gains from the nearly decade-long economic expansion.

The debt sales would finance infrastructure projects and housing programs in California, school construction in Texas and North Carolina, and affordable housing in Oregon, where rising home prices have been a strain on many residents.

The bulk of bond proposals were in California, where nearly $16.4 billion of state borrowing was proposed to upgrade water infrastructure, support housing programs and renovate children's hospitals.

The ballot propositions mark a shift away from the fiscal austerity that gripped states and cities after the last recession, when they put needed infrastructure work on hold while contending with large budget shortfalls. Those deficits have largely disappeared as states benefit from growing tax collections, allowing them to put more money into construction projects, despite President Donald Trump's failure to enact a big infrastructure program like the one he campaigned upon.

The referendums come after the pace of new debt issues slowed this year, in part because of a surge late last year before Trump's tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald a sharp increase in debt issues, however, because the securities are often sold years after they're approved by voters.

Here is a list of some of the major bond referendums getting approval at the polls:

CALIFORNIA
California: $4B for housing programs and veterans' loans (94% of precincts reporting, was winning 54% to 46% as of 9.37 a.m. ET) San Diego USD: $3.5B for security improvements and plumbing (73% of precincts reporting, was winning 61% to 39% as of 9.37 a.m. ET, according to San Diego County) California: $2B for homelessness prevention housing California: $1.5B for expansions of children's hospitals San Francisco: $425M for seawall improvements Peralta Community College District: $800M for facilities and technology Chaffey Community College District: $700M for improvements

NEW JERSEY
New Jersey: Voters OK'd $500M in bonding for vocational school expansions, school safety and water infrastructure

NORTH CAROLINA
Wake County: Voters were likely to pass $548M in bonding for school construction

OREGON
Metro: Voters were poised to approve about $653M in bonds for affordable housing

TEXAS
Collin County: Voters were poised to approve $600M in bonds for non-tolled highway construction Fort Bend ISD: A measure for $992.6M in bonding for construction, security and technology was poised to pass by a wide margin Frisco ISD: Voters looked likely to approve $695M in bonds for growth, maintenance and renovations Tarrant County: Voters looked likely to pass $800M in bonds for County hospital expansion Round Rock ISD: voters appear to have approved $508 million Alvin ISD: Approved $480.5M for school improvementsAnd here are some of the notable measures that voters have rejected:

COLORADO
Colorado: Voters rejected $6B for transportation projects Colorado: Voters also rejected $3.5B for road and bridge expansion

By BLOOMBERG

November 7, 2018

[Study Urges Private Activity Bond Changes.]

WASHINGTON —Lawmakers should expand the permissible uses of tax-exempt private activity bonds and lift the PAB volume cap to facilitate financing of long-term infrastructure leases that could generate as much as $885 billion for state and local governments, according to a study released Wednesday.

The new paper, "Asset Recycling to Rebuild America's Infrastructure," called on Congress to pass legislation that would make tax-exempt PABs eligible to help private companies finance the acquisition of existing public infrastructure. The paper's author, Robert Poole of the Libertarian think tank Reason Foundation, argued that this "asset recycling" approach to public-private partnerships, which has been controversial in the past, could be a key component to addressing America's infrastructure funding woes.

"With constrained public resources at every level of government, it will take novel ideas to address our continued infrastructure investment deficit," Poole said. "Asset recycling can help fix America's serious infrastructure problems: aging, deteriorating facilities and a lack of funding for a large array of new infrastructure that would improve our quality of life.

"The basic idea calls for long-term leasing of existing facilities to well-qualified private partners and 'recycling' the lease proceeds into new, but currently unfunded infrastructure project," Poole continued. "The company pays most or all of the annual lease payments upfront, and the government uses that money on its unfunded infrastructure needs. Arguably, no other tool holds as much promise in addressing America's infrastructure deficit."

In his study, Poole argued that asset recycling is consistent with the Trump administration's stated preference for encouraging private investment in infrastructure, and pointed to a variety of infrastructure financed in this way in Australia. Billions of dollars' worth of Australian infrastructure investment were made possible through asset recycling as well as other forms of P3 in the past decade or so, according to Poole.

The study used data compiled from past commercial infrastructure transactions to produce its estimates.

Leasing the 61 largest U.S. airports to private partners could generate between $250 billion and $360 billion for state and local governments in gross upfront lease payments, according to Poole's work. Under the leases, the private companies would spend an estimated $100 billion on capital improvements over the first five years, bringing the total private-sector investment in airports to between $350 billion and $460 billion.

The study cites Baltimore/Washington International Thurgood Marshall Airport, which it finds could generate between $1.6 billion and 2.3 billion in net lease proceeds (after paying off existing bonds), and Louisville International Airport, which Poole said could be leased for over $600 million in net lease proceeds.

The study produced projections for other sectors as well, including toll roads and bridges, ports, and water/wastewater facilities.

But the program would benefit immensely from tax-exempt financing, Poole said, requiring legal changes to PABs. Under current law, PABs can only be used for certain kinds of infrastructure projects such as tunnels and are subject to a $15 billion cap. The $15 billion in exempt facility bonds is not subject to the state volume caps. The Department of Transportation is responsible for allocating the remainder among qualified projects. As of Aug. 1, 2018, approximately $8.38 billion in PABs have been issued, according to the DOT website.

PABs cannot be used to finance the acquisition through an outright purchase or long-term lease of existing brownfield infrastructure assets. Poole said both bars should be lifted to make asset recycling attractive.

Poole also recommended other policy changes, including making small federal grants available to city and state governments to hire financial and legal advisors for asset recycling projects.

Privatization of exiting government infrastructure has been controversial in the past, but P3s generally have gained increasing acceptance as one possible avenue to finance infrastructure. Muni market observers are hoping for a bipartisan infrastructure bill to emerge from Congress sometime next year.

By Kyle Glazier

BY SOURCEMEDIA | MUNICIPAL | 11/14/18 07:03 PM EST

Neighborly Enters Muni Broadband Market with Ambitious Accelerator Project.

More than 100 communities applied to join Neighborly's inaugural Community Broadband Accelerator, prompting the company to expand the cohort to 35 participants in 18 states.

In a new initiative that has already been expanded by popular demand, 35 groups representing cities, counties, towns and municipal utilities across 18 states will join private-sector partners in the first-ever Neighborly Community Broadband Accelerator.

The cohort, announced on Nov. 15, will get underway later this year and conclude sometime in 2019. It's the first-ever broadband endeavor for the San Francisco-based company, which links communities to capital and has helped finance such traditional public projects as schools, bridges, playgrounds and roads. More recently, however, Neighborly has focused on supporting infrastructure that will make communities "more resilient and more future-proof," said Product Manager Garrett Brinker.

Nearly a year after the Federal Communications Commission voted to repeal net neutrality, Brinker and incoming members of the new cohort said it's clearer than ever that the availability of affordable, high-speed broadband is essential for public entities across the U.S. to improve connectivity, fight brain drain and bolster their workforces and economies. Financing and funding are key aspects of any broadband project and the realization that many municipalities don't address these areas early enough in the process helped inspire creation of the Accelerator, which opened its application process in August.

The company initially planned on accepting around 10 groups but received more than 100 applications that it reviewed with an eye for network feasibility, geographic diversity and overall effort. The enthusiastic response motivated Neighborly to roughly triple the number of participants. The company believes that broadband is foundational for modern infrastructure and smart city efforts alike; and widening participation would improve the group's capacity to educate and inform members.

"Just like the bridges did in the 20th century, broadband infrastructure can help unlock economic prosperity, the creation of jobs, new educational opportunities and ways in which people can become more connected to anyone and anything around the world," Brinker said, comparing its potential to the 1930s construction of the Golden Gate Bridge, an early economic enabler for the Bay Area. Having closely examined how to establish a broadband network in an educational curriculum guided by industry representatives, participants will have access to competitive Neighborly financing at the program's end.

WORKFORCE A MOTIVATOR FOR WISCONSIN COUNTY

Keeping economic engines running smooth is definitely an aim for officials in Sauk County, Wis., part of a Neighborly Accelerator that includes partners from Laramie, Wyo., to JEA, the community-owned utility in Jacksonville, Fla.; and from Baird, Texas, to Palo Alto, Calif.

Jared Pinkus, who has been Sauk County's community liaison for nearly eight months, said his position was created following a 2014 survey of rural broadband that identified a need for better connectivity, particularly in the southwest section of the county. Pinkus said that, despite ongoing efforts, the county continues to face a workforce gap as its population ages and younger residents move to better connected areas.

"We're situated right outside of Madison," said Pinkus. "It's the capital so there's a lot going on, it's very attractive to a younger workforce and so it's 'How do we tap into that?' We went through a number of initiatives over the course of four years to try to figure out how to attract and retain specifically millennials, but (also) young families or skilled workers."

The county's topography, including hilly areas with dense forest, is a natural challenge to deploying broadband, but the county continues to study the need and hopes to drill down on financing and learn from participants and private-sector partners with more experience.

Standing up high-speed broadband would cost nearly $50 million, Sauk County's second study determined, but supervisors are supportive and joining the Accelerator should help the county's effort, Pinkus said. Local connectivity efforts are also progressing. The Reedsburg Utility Commission, which provides Internet, TV and telephone services to more than 4,400 customers in Sauk County, recently received two state grants totaling nearly $450,000 to connect a fiber backbone.

OREGON PARTNERS SEEK DIGITAL EQUITY

Leaders in one Oregon metropolitan area have already bonded over improving broadband. Michael Hanna, a data engineer at Multnomah County and campaign manager for the regional Municipal Broadband PDX campaign, said last winter's FCC vote galvanized support for creating a publicly owned Internet utility with permanent net neutrality. Last year, new data showed 30 percent of Latino households in Multnomah, and 28 percent of households with residents ages 65 and older, lack broadband access.

The county and the cities of Portland, Gresham, Troutdale, Fairview and Wood Village will partner in an upcoming broadband feasibility study, Hanna said. By joining the Accelerator, the group hopes to gain a better sense of how to streamline the process of creating a public utility; and how to create a template that could serve as a model to other agencies. Other reasons for participating, however, have to do with leveling the playing field.

Digital equity is a primary driver for Municipal Broadband PDX, which took the lead in applying to join the Accelerator. ("PDX" is the airport code for Portland International Airport, and also regularly used as a signifier of the Portland metropolitan area.) Serving the neediest is a primary mission for the county, Hanna said, but because Internet access is controlled by a for-profit industry, furthering high-speed broadband has been difficult.

"Equity was really the primary driver for Multnomah County, and for the four cities in eastern Multnomah County," said Hanna. "They quickly also joined both from an equity perspective but also from an economic development perspective. They saw the opportunity to attract and retain new businesses and kind of the local economic boom and local jobs. There's really kind of a compelling economic aspect to municipal broadband."

CONNECTIVITY, PARTNERSHIPS KEY IN VERMONT

Connectivity is a primary issue for the town of Enosburgh, Vt. But Sean Kio, chairman of the Enosburgh Technology and Innovation Committee, said the town, which serves more than 2,700 residents in areas including the village of Enosburg Falls, has other motivations for joining the Accelerator, including a growing workforce it wants to retain, forging local partnerships, sparking creative tech work and potentially standing up a broadband network.

The quality of broadband access, provided by the private sector, can vary around the region, the chairman said, calling it "decent" in the village — which is within town boundaries — but somewhat slower in the town and elsewhere. Compounding the issue is the fact that most residents live outside the village. Joining the accelerator, Kio said, would enable the muni to explore closing its digital divide with education from partners — but also help attract and retain a younger workforce drawn by the lower cost of home ownership but seeking high-speed Internet.

"Enosburgh being a small community, not putting the town in any sort of financial burden long-term is always something to think about. I don't think there's a wrong answer. We're currently in that process of looking at alternatives and what's right for the community," said Kio, who works for a fiber broadband company, Burlington Telecom, which provides TV, telephone and Internet to residents in Burlington, Vt.

GOVTECH.COM

BY THEO DOUGLAS / NOVEMBER 15, 2018

The Dollars to Shape Cities.

The scale of the challenges facing cities is bigger than any public sector can handle. Here's a look at different sources of private-sector capital, and the new and unexpected ways communities can access that capital.

The more you go to city council hearings, town halls or other forums where cities are discussing affordable housing, economic revitalization or environmental sustainability, the more you hear it — like the refrain of a classic song that everybody seems to know, even if it's not their favorite. It goes something along the lines of “the public sector will have to play a role, but it won’t be enough.”

The scale of the challenges at hand are just bigger than any public sector budget can handle — meanwhile, the private sector controls the lion’s share of capital.

But “the private sector” isn’t a monolith. There are different pools of capital with different constraints and means of accessing them. Below, we’ve compiled the basic facts about the main “buckets” of private sector capital, along with examples of how those in cities have gained access to them to meet the scale of the challenges they face.

Continue reading.

Next City

by Oscar Perry Abello

Nov 12, 2018

Best Credit Data Launches BCD Municipal Bond Evaluation Methodology Version 2.0.

BOSTON, Nov. 14, 2018 /PRNewswire-PRWeb/ — Best Credit Data (BCD), a provider of municipal bond, corporate bond, private credit and syndicated/middle market loan pricing data and analytics, today announced the launch of BCD Municipal Bond Evaluation Methodology Version 2.0.

BCD provides evaluated pricing for over 1 million U.S. municipal bonds every day — including eight years of end-of-day history — to clients across a range of use cases, including banks, brokers, mutual funds, hedge funds and insurance companies.

“BCD combined input from industry recognized municipal bond evaluation experts, the experience and expertise of our developers and product management team, and the awesome computing power of Google BigQuery to develop our enhanced methodology,” stated Mark O’Brien, President of Best Credit Data. “Among other things, these enhancements enable us to better differentiate municipal bond evaluations via an increased number of sectors, among them state, use of proceeds and credit risk.”

James “J.R.” Rieger, an industry expert and the author of The Rieger Report, consulted on the project. “Best Credit leverages state of the art technology and an extremely refined methodology to deliver municipal bond evaluations designed to reflect the complexities of the municipal bond market,” Rieger said. “BCD’s evaluations are well suited to address workflow requirements across front, middle and back office applications.”

Tom Metzold, a municipal bond portfolio manager for over 28 years said Best Credit’s enhanced methodology checks all the boxes. “Financial institutions would do well to consider BCD as a primary or secondary source of municipal bond evaluations,” Metzold said.

In addition to delivering daily and historical evaluations via API and data feeds, Best Credit also provides clients with ad-hoc access via the BCD portal, an intuitive and easy-to-use platform. The portal is a cost-effective method to quickly view and download municipal and corporate bond data into a client’s workflow.

About Best Credit Data, Inc.

Best Credit Data, Inc., is a leading provider of municipal bond, corporate bond, private credit and syndicated/middle market loan evaluations and analytics to financial institutions across the globe. Based in Boston, BCD leverages observation driven methodology and big data cloud computing technology to provide a high quality and cost effective market data alternative.

JPMorgan Brings the Active vs. Passive War to the Muni Bond Market.

- **Bank starts two actively managed ETFs tracking municipal debt**
- **Firm says active approach enables funds to avoid credit issues**

The battle between passive and active fund managers is raging in most corners of the investing world. Now it's coming to the $3.9 trillion municipal bond market with two new actively managed ETFs.

JPMorgan Chase & Co., which has $65 billion in muni investment assets, started two municipal bond exchange-traded funds in October that have attracted a combined $50 million in assets. Using active strategies, the funds can select bonds to avoid credit issues and won't "blindly invest" through indexes tracking what's often considered an opaque market, said Richard Taormina, a portfolio manager at JPMorgan Asset Management and head of tax aware strategies.

"Active is really the only way to go" when investing in municipal debt, Taormina said. "Passive provides you access, but it doesn't provide you opportunity."

Continue reading.

Bloomberg Markets

By Amanda Albright and Carolina Wilson

November 15, 2018, 10:22 AM MST

Fitch Ratings: U.S. Higher Education Can Absorb Pension Liabilities

Fitch Ratings-Chicago-08 November 2018: Unfunded pension liabilities make up a large chunk of a U.S. public university's overall financial leverage, though a new Fitch Ratings report says pension debt in and of itself is not enough to drive rating changes in the sector. Fitch is also planning to release its higher education criteria exposure draft for comment early next week.

One notable reason unfunded pension liabilities alone do not drive ratings is the U.S. higher education sector's tolerance for higher leverage overall. Another is that, unlike other revenue supported sectors like not-for-profit healthcare, colleges and universities may receive direct state funding support for pension liability. Like other subsets of public finance, Fitch treats an institution's unfunded pension liability or net pension liability (NPL) like debt when calculating financial leverage. Fitch treats lease obligations like debt for similar reasons.

Fitch sees an institution's business model as the fundamental bedrock when considering its rating.

Acceptable levels of leverage at a given rating level vary across sectors because the relative strength of the business model can be very different. Under Fitch's framework, public higher education institutions with a strong business model can have many multiples of leverage compared to other kinds of entities that have a midrange business model.

The revised framework does not represent a shift in Fitch's approach to considering leverage in public institutions differently from their not-for-profit counterparts. This is demonstrated in Fitch's historical median data. The median level of available funds to debt at the 'AA' rating level is 94.2% for public universities, while the same ratio for a 'AA' rated private institution is much higher at 202.5%.

'Pensions in Public Higher Education: Not Expected to Drive Rating Change' is available at 'www.fitchratings.com'

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Municipal Buyers Embrace Risk With Recycling Deals: Joe Mysak

- **Deal in South Carolina for expansion of wood pellet mill**
- **Unrated, high-yield deals sold only to qualified buyers**

The municipal-bond market is serious about waste.

Each week's calendar seems to contain some form of deal that promises to convert waste into something useful.

There's the California recycler that will save glass collection companies from having to pay to take hitherto unrecyclable glass to landfills. It will pay them instead to deliver all of their glass to a mill that will turn 100 percent of it into new glass and cement, among other things.

Or take the Arizona facility that will convert cow manure and food waste into methane, which will then be sold to British Petroleum.

Now comes the South Carolina Jobs-Economic Development Authority with a $12.1 million issue of revenue bonds for the Jasper Pellets LLC project. The proceeds will allow the company to buy, renovate and expand an existing wood-pellet production facility in Ridgeland, South Carolina, quadruple its production, and truck the finished product to Savannah, Georgia, where it will be shipped to Europe. The company already has a contract with CM Biomass Partners, a subsidiary of a Danish firm, for the pellets, which are used as fuel.

Jasper Pellets intends to buy its feedstock from lumber mills in Georgia and South Carolina. It's "generally sawdust and chips and other processing materials which are residual products with little economic value," in the words of the preliminary offering memorandum.

Like the glass recycler and cow manure processor, the pellets deal is unrated and being sold only to qualified institutional investors in $100,000 denominations. The recycler deal hasn't been priced yet. The $61 million cow manure bonds were priced to yield 7.5 percent in 2033. The feasibility study to the pellets deal presumes a 7.25 percent coupon.

These are designated Green Bonds and tax-exempt, unless you're subject to the alternative minimum tax.

It's hard not to imagine that these kinds of deals will be replicated in state after state. One banker told me he had bond issues for a plastic bottle recycler in the works, as well as for an anaerobic digester that would turn biodegradable material into gas.

The municipal market only re-embraced risky transactions like this, last common in the 1990s, in the last few years. This new generation seems to be on a little more solid footing, a little less speculative. And it is Feel-Good. It's hard not to root for worthy projects designed to help clean up the environment.

If you were looking for the Next Next Thing in municipal finance, this is it.

Bloomberg Markets

By Joe Mysak

November 9, 2018, 6:38 AM PST

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

Municipal Bonds Get a Boost in Midterm Elections.

James Iselin, managing director and head of municipal fixed income at Neuberger Berman, discusses how municipal bond initiatives fared in the midterm elections and what changes in state governments may mean for the market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch Video.

Bloomberg Markets

November 7th, 2018

‘No Bold Bets’ for Muni-Bond Managers Stung by Trump's Victory.

- **Trump’s surprise win caused bond market to fall on rate fears**
- **Polls predict Democratic House, but they could be wrong again**

People who work in the municipal-bond industry describe November 2016 as “awful,” “like staring down the bottom of a bottomless well,” and simply “extreme.”

Now, they’re preparing for the prospect of another sell-off if Republicans score another surprise upset on Election Day and keep control of the U.S. House of Representatives. Such a scenario could cause bond prices to tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the pace of the economy. President Donald Trump’s 2016 win pushed the municipal market to its biggest monthly loss since the recession.

“You have to take everything with a giant grain of salt,” said Nicholas Foley, senior portfolio manager at Segall Bryant & Hamill LLC, who said he was prepared for an early morning on Wednesday if there is a surprise win by the GOP.

The firm has reduced exposure to long-dated hospital bonds, which could be hit hard if the Republicans keep control of Congress and make another effort to repeal the Affordable Care Act. At the same time, the firm is trying to make sure that it has “proper exposure” to municipals to benefit from Democrats winning control of the House, which could cause state and local debt to gain by diminishing the chances of deeper tax cuts or a rollback to the tax exemption for the income from the securities.

“There’s a lot of uncertainty,” said Foley, who compared the November 2016 sell-off to the bottomless well. “You can feel it in the market.”

Given the chance of the polls being off, as they were in 2016 and in the U.K. Brexit vote, Vikram Rai, head of Citigroup’s municipal strategy group, is telling clients to be cautious.

GOP control of Congress would be “material” because of the likelihood of a second tax-cutting round, which could threaten the tax-exemption on municipal bonds as lawmakers look to raise revenue, Rai said.

The 2016 elections and the tax law changes enacted late last year have ignited increased interest in federal politics from what’s typically viewed as a buy-and-hold asset class. Among other steps, the Trump tax cuts reduced demand for bonds from corporations and limited the state and local tax deduction, which caused some residents of high-cost states to invest in municipal bonds to drive down their taxable income.

“I don’t remember ever a time when we talked to clients more about it,” said Tom Casey, a senior portfolio manager at Standish, a division of BNY Mellon Asset Management North America. While Casey said he’s still focused on technical factors like supply and demand and what it means for the asset class, he said he’s reading and talking about politics much more than usual in his career.

“We’re clearly in different times than we have been in a long while,” Casey said.

The midterms are arriving as state and local debt is headed for a 1.3 percent loss this year as interest rates tick up, the first drop since 2013. Investors are starting to pull their money out of municipal-bond mutual funds, with the funds seeing six weeks of outflows. With elections this week, supply has dwindled to just about $6 billion in bonds this week.

James Iselin, a managing director at Neuberger Berman, said he’s been more cautious on the high valuation of state and local debt in general, and he’s not making any big calls ahead of election night. “There’s so many unpredictable outcomes, it’s not a time to step out with any bold bets,” he said.

Sweta Singh, a portfolio manager at Wilkins Investment Counsel Inc., said the firm’s “bottom-up” analysis of credits it owns makes it comfortable with its municipal holdings regardless of what happens in Washington. It’s still too early to forecast the way policies could shift, she said.

“For it to percolate to an actionable item, there’s a gestation period and a time-lag,” she said.

Bloomberg Technology

By Amanda Albright

November 6, 2018

Wall Street Muni-Bond Bankers Need Work. Voters Gave Them Plenty.

- **They approved at least $31.5 billion in new bonds Tuesday**
- **$76.3 billion in bond referendums on ballots most since 2006**

American voters gave plenty of work to Wall Street underwriters desperate for it.

Of the almost five dozen state and local bond measures asking for at least $200 million or more, voters Tuesday approved $31.5 billion, data from market research company Ipreo by IHS Markit shows. That’s about 61 percent.

In all there were more than 690 bond measures across the U.S. ranging from as large as $8.8 billion to as small as $250,000, and a tally of how much of that was approved is still pending. Bond referendums that passed include $4 billion for affordable housing programs and veterans loans in California, $3.5 billion of school improvements in San Diego and $800 million in hospital improvements bonds in Tarrant County, Texas.

“A fair number of bond proposals were approved, that’s good for supply,” said Joseph Rosenblum, director of municipal credit research at AllianceBernstein.

The bond approvals come after the pace of new debt issues slowed this year, in part because of a surge late last year before the federal tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald an immediate increase in debt issues, however, because the securities are often sold years after they’re approved by voters.

Eight bond measures each asking for more than $200 million or more failed. Voters in California rejected an $8.9 billion proposal for water infrastructure and conservation and Colorado voters struck down two competing transportation bonds referendums totaling about $9.5 billion.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to Ipreo.

Bloomberg Markets

By Danielle Moran

November 8, 2018, 10:43 AM PST

— With assistance by Amanda Albright, and William Green

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

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

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

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

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

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

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

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

States Resist Urge to Go on Spending Spree as Revenue Pours In.

- **General-obligation bonds of states outperform local debt**
- **Personal income tax revenue grows 11% in first half of 2018**

As a strong economy and federal tax changes boost U.S. state coffers, they've resisted going on spending spree.

Personal income taxes, which make-up about 40 percent of state government revenue, rose 11.2 percent in the first half of the year, as residents prepaid taxes before new limitations on state and local deductions kicked in. In addition, the limit's cap on property-tax deductions means that some will collect more revenue, since states use federally-adjusted income as a base for their taxes.

Yet states haven't ramped-up spending, with budgets growing about 3 percent in the fiscal year that begin July 1, according to the National Association of State Budget Officers. They employ 5.1 million people, same as the beginning of the year, and 30,000 less than last year, according to the U.S. Department of Labor.

"We expect states' top-line revenue to benefit through FY19-20 and are bullish on credit quality of state GO bonds in the near term," Barclays Plc's municipal strategists, led by Mikhail Foux, wrote this week.

State general-obligation bonds have outperformed local ones this year, losing 1.03 percent compared to 1.45 percent for bonds issued by cities, towns and counties, according to Bloomberg Barclays indexes. While a strong economy has increased local sales-tax revenue, the don't benefit directly from federal tax changes.

Almost 95% of state credit ratings are AA or higher, according to Barclays.

Forecasting state revenue has become more challenging because of federal tax policy changes, the volatility of capital gains and online sales, said Fitch Ratings analyst Laura Porter. Pension liabilities, healthcare and education funding continue to grow.

"States in general continue to be conservative," said Porter. "There's lots of uncertainty."

Bloomberg Business

By Martin Z Braun

November 8, 2018

CDFI Bond Guarantee Program.

CDFI Bond Guarantee Program Benefits

Through the CDFI Bond Guarantee Program, the Secretary of the Treasury makes debt available to CDFIs from the Federal Financing Bank. The loans provide long-term capital not previously available to CDFIs, and inject new and substantial investment into our nation's most distressed communities. The CDFI Bond Guarantee Program has guaranteed over $1.51 billion in bonds to date.

OPENING DATE
November 5, 2018

DEADLINE
February 26, 2019

ANNOUNCEMENT DATE
Fall 2019

OVERVIEW
Enacted through the Small Business Jobs Act of 2010, the CDFI Bond Guarantee Program responds to a critical market need—long-term, low-cost capital that can be used to spur economic growth and jump start community revitalization. Through the CDFI Bond Guarantee Program, Qualified Issuers (CDFIs or their designees) apply to the CDFI Fund for authorization to issue bonds worth a minimum of $100 million in total. The bonds provide CDFIs with access to substantial capital that is then used to reignite the economies of some of our nation's most distressed communities.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants, but is instead a federal credit subsidy program, designed to function at no cost to taxpayers. The bond proceeds are debt instruments that must be repaid.

The Secretary of the Treasury provides a 100 percent guarantee on these loans, with a maximum maturity of 30 years. The Qualified Issuer sells the government-backed bonds to the Federal Financing Bank (FFB)—a government corporation that ensures the efficient use of federal financing—and bond proceeds are used to extend credit to CDFIs for community development purposes. The Qualified Issuer thus acts as a "go between" financier to the broader CDFI community.

CDFIs benefit from the potential scale of the CDFI Bond Guarantee Program, which offers long-term credit at below-market interest rates. This unique program incentivizes and empowers CDFIs to execute large-scale projects, including the development of commercial real estate, housing units, charter schools, daycare or healthcare centers, and municipal infrastructure. In addition to these projects, eligible CDFIs may use the capital to extend credit to other community development borrowers—or Secondary Borrowers—or refinance existing loans at low interest rates, freeing up capital for additional investments. By promoting large-scale, long-term investment, the CDFI Bond Guarantee program helps breathe new life into economically underserved areas.

For more information, please see our CDFI Bond Guarantee Fact Sheet.

Click here for Reference Documents.

Click here to apply.

ELIGIBILITY

There are separate eligibility criteria for an applicant to be deemed either a Qualified Issuer or an Eligible CDFI for the purposes of the CDFI Bond Guarantee Program.

For detailed information, please refer to the Notice of Guarantee Availability.

A Wall Street Haven for Democrats Has Reason to Cheer a Blue Wave.

- **Republican House win seen fueling another potential sell-off**
- **Another round of tax cutting could put pressure on rates**

There's one area of Wall Street where you can find a bit of blue in what's typically seen as a sea of red: public finance.

But the bankers and mutual fund managers who work in the $3.9 trillion municipal-bond market have professional reasons to root for Democrats Tuesday regardless of their political views. If Republicans defy polls and keep control of the U.S. House of Representatives, analysts at BlackRock Inc., Barclays Plc and Citigroup Inc. have predicted that bond prices may tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the economy.

"The GOP retaining power in the House, even by the slimmest of margins, is bearish," said Vikram Rai, head of Citigroup's municipal strategy group. "I would expect you could see a selloff in the fixed-income markets altogether."

The Congressional elections come as bonds are under pressure because the economy continues to expand at a solid pace, holding unemployment at a near half-century low. The steady drumbeat of strong economic data has sent the municipal securities market to a two-month losing streak, causing investors to pull funds from state and local government debt funds for the past six weeks.

The pressure on the market would likely be worsened by another round of tax-cuts, which would reduce demand for tax-free securities and put more pressure on the Fed to raise rates by further fanning the economy. Last year's corporate tax cut also dealt a blow to Wall Street underwriters by doing away with the tax exemption on bonds sold for a key type of refinancing, helping spur a drop in new debt sales this year. To offset the cost of deeper reductions, a Republican-led Congress could chip away at the market's subsidies even more.

Reinforcing Convictions

"Equity people are driven by: lower taxes mean higher earnings per share," said Craig Brandon, co-director of municipal investments at Eaton Vance. "If you're a fixed-income person, higher deficits might not necessarily be so good for Treasuries, state governments."

That may be reinforcing convictions in what's already a corner of Wall Street where Democratic politics mix well with business. Tax cuts at the local level tend to not be popular with bondholders, given that a smaller revenue stream increases their risk. And for securities firms, the big cities and states, such as New York and California that are a major source of new debt deals, skew Democratic.

Bankers tend to "see the view point of the people they represent — the larger issuers who tend to be Democratic," said Richard Ciccarone, head of Merritt Research Services, who has worked in the municipal bond industry for more than three decades.

Banks' public finance departments frequently include former Democratic officials. Chicago's chief financial officer, Carole Brown, previously worked for Barclays, and a current candidate for mayor, Bill Daley, once worked for JPMorgan Chase & Co. Henry Cisneros, who led the U.S. Department of Housing and Urban Development under President Bill Clinton, and William Thompson, Jr., former New York City comptroller, are part of the leadership team at municipal-bond investment bank Siebert Cisneros Shank & Co.

Dominant Banks

But public officials say politics doesn't determine which banks underwrite their bonds — a business that's come to be dominated by Bank of America Corp., Citigroup and JPMorgan — and bankers are banned from making political donations to their clients under securities rules. Tim Schaefer, California's deputy treasurer, said political connections don't play a role in debt deals.

"It doesn't come up in my work at all," he said.

Still, the municipal-bond business stands to benefit from a Democratic advance. In Washington, Democrats are planning to push for major transportation and infrastructure plans if they win the House, picking up on a stated priority of President Donald Trump's that took a back seat to last year's tax cuts. Such a plan could involve subsidized bond sales by states and cities, as were included in the economic stimulus plan passed under former President Barack Obama.

State elections have implications as well, with Democrats seeking to chip away at the majority that Republicans have held in governors' offices since the Tea Party wave in 2010. In Illinois, Democrat J.B. Pritzker is the favored winner in his bid to unseat Governor Bruce Rauner, a Republican whose term was marked by battles with the Democrat-led legislature over his plans for turning around the state's finances.

Democrat Gretchen Whitmer, who is running for governor of Michigan, has made fixing roads and bridges a part of her platform, saying she would go to voters for a bond measure if the state legislature doesn't "sufficiently fund" an infrastructure bank. In Ohio, Democrat Richard Cordray is in favor of seeking voter approval for an infrastructure program financed by debt.

"If you're a banker, you want to do deals, you want to do projects," said Joseph Krist, a partner at research firm Court Street Group, who previously worked at UBS AG and is a Democrat. "It's kind of what we do."

Bloomberg Markets

By Amanda Albright

November 6, 2018, 6:29 AM PST

Facing Climate Change, States and Cities Seek to Borrow Billions.

- **Miami Beach, a harbinger of warming perils, floats bond issue**
- **'I don't think we can wait,' the Florida city's mayor says**

Dan Gelber, the mayor of Miami Beach, Florida, says climate change will be a homeowners' worst nightmare.

"If you own a home and you find that your roof has a problem or you find out there's a termite infestation, you have to take care of it," he said. "That's what climate change is. Sea level rise has created challenges that have to be addressed. For local governments, they don't go away unless you do something about them."

That's why Miami Beach, where frequent flooding prompted by high tides have illustrated the risks of climate change, is asking residents for the power to pump more money into environmentally-friendly sidewalks, parks, and neighborhood improvements. The $439 million bond proposal would use a fourth of the proceeds to address the effects of climate change.

Continue reading.

Bloomberg Climate Changed

By Amanda Albright

November 5, 2018

EPA Selects 39 Projects to Apply for Water Infrastructure Loans.

FY 2018 Selected Projects

The WIFIA program is inviting 39 projects in 16 states and Washington, D.C. to apply for Water Infrastructure Finance and Innovation Act (WIFIA) loans. Together, the selected borrowers will receive WIFIA loans totaling up to $5 billion to help finance over $10 billion in water infrastructure investments and create up to 155,000 jobs. These loans will allow large and small communities across the country to implement projects to address two national water priorities – providing for clean and safe drinking water including reducing exposure to lead and other contaminants and addressing aging water infrastructure.

View one-page summaries of the FY 2018 selected projects.

See EPA's News Release to learn more.

CDFA Advocates for Permanent Category of Disaster-area Recovery Bonds.

Read the CDFA memo.

CDFA Reports Record Multifamily Housing Bond Issuance in 2017.

In 2017, the 50 states and the District of Columbia reported issuing a record $15.3 billion in multifamily rental housing bonds, representing a 9.3 percent increase from the previous record $14 billion reported issued in 2016, according to the Council of Development Finance Agencies (CDFA). The $21 billion in reported combined multifamily and single family mortgage revenue bond issuance represents a 13.6 percent increase in the portion of the cap used for housing from 2016, when states reported a total of $18.5 billion for housing bond issuance.

This record issuance for multifamily bonds comes during the year when Congress considered repealing the tax exemption for all private activity bonds, a proposal originally made in 2014 by then House Ways and Means Committee Chairman Dave Camp, R-Mich.

In 2017, the 50 states and the District of Columbia received $35.3 billion in new private activity bond volume cap allocation, according to CDFA in its report "CDFA Annual Volume Cap Report: An Analysis of 2017 Private Activity Bond & Volume Cap Trends." CDFA reports that the 2016 cap is an increase of 0.6 percent from 2016. This was in addition to more than $55.1 billion in existing carryforward allocation, making the total accessible amount of national volume cap approximately $90.4 billion. CDFA reported states issuing a record $24.9 billion in all private activity bonds in 2017, a 22 percent increase from $20.4 billion in 2016.

Of this total available, the combination of multifamily housing bonds and single family mortgage revenue bonds issuances represent 59.3 percent of 2017 cap and 84.4 percent of 2017 issuance.

The graphic below describes what CDFA found related to bonds issued for multifamily housing.

Continue reading.

Published by Michael Novogradac on Thursday, November 1, 2018 – 12:00am

Capital Markets Outlook: A Tough Road Ahead

Interest rates, costs continue to rise for developers.

All eyes will be on interest rates as the calendar turns to 2019.

The Federal Reserve raised its benchmark interest rate a quarter point, to a range of 2% to 2.25% near the end of September, the third hike this year. Additional increases are also expected in the months ahead.

"Interest rates have continued to increase, and the yield curve has flattened," says Richard Gerwitz, co-head of Citi Community Capital. "Those are the two outstanding changes in the capital markets this year. While we're still in a relative low point if you look over the last 30 years or more, rates have climbed and there's certainly concern that the trend will continue."

Continue reading.

Affordable Housing Finance | Nov. 7

By Donna Kimura

A Blueprint for Gridlock in the Markets.

Stocks enjoyed a relief rally on Wednesday, mainly because of the great relief that the midterm elections were finally over. By week's end, however, that relief faded, and the agita resumed.

Friday's 202-point drop in the Dow Jones Industrial Average wasn't enough to wipe out Wednesday's 545-point leap, however, and the blue chips ended up 718 points, some 2.8%, for the week. Over the past two weeks, the Dow tacked on 1,301 points, or 5.3%, for its best fortnight in two years. That, of course, came after October's 5.1% shellacking.

For the financial markets and the economy, the as-expected election result of Democrats gaining control of the House of Representatives and Republicans retaining the Senate makes possible a variety of outcomes. Most depend on whether the new Congress cooperates or clashes with President Donald Trump. What can be confidently predicted is continued massive budget deficits.

Democratic control of the House probably means no further middle-class tax cuts, according to Fitch Ratings, although fiscal "consolidation" also isn't apt to be a priority for the Dems. The taxing and spending policies are likely to continue, Northern Trust economists add, which bodes poorly for the fiscal outlook. "Despite strong growth and exceptional corporate profits, government receipts were flat in the last fiscal year, thanks to tax reform," they observe. And with the loosened spending curbs, the federal deficit may reach $1 trillion this year.

Infrastructure investment may be one area of agreement between the parties, although Fitch notes that there is no clear consensus on the details, notably funding. In a paper released last February, the Trump administration recounted a proposal made a year earlier to use $200 billion in federal spending to seed $1.5 trillion in projects paid for mainly by state and local governments. Little has been heard of this recently. In contrast, Rep. Peter DeFazio, an Oregon Democrat who is set to become chairman of the House Committee on Transportation and Infrastructure in the next Congress, has proposed bankrolling projects by issuing $500 billion in 30-year bonds and indexing federal fuel taxes to inflation.

Court Street Group, a municipal bond advisory, argues that Democratic control of the House increases the chances of reviving Build America Bonds, which were taxable munis with a federal subsidy that were issued to fund capital projects in 2009 and 2010. If the ideas of issuing more long-term Treasuries and reviving Build America Bonds for infrastructure sound familiar, they were proposed by Barron's in December 2016. (For other ideas for fixing the budget, see this week's Streetwise.)

In the meantime, the only certainty is that the national debt will continue to climb. Northern Trust points out that a new deal to raise the debt ceiling will be needed when the present suspension ends on March 1. In the meantime, gridlock is the most likely outcome, according to Greg Valliere, chief global strategist for Horizon Investments, given the probability of the House focusing on investigating Trump, who will fight back by demonizing Nancy Pelosi, the California Democrat who may well return as Speaker of the House.

For the markets, Federal Reserve policy and China remain "huge wild cards, but economic fundamentals will dominate—and those fundamentals look solid," he concludes. For now, anyway.

Barron's

By Randall W. Forsyth

Nov. 9, 2018

[Investors Speculate on Return of Crisis-Era Build America Infrastructure Bonds Under Split Congress.]()

This infrastructure-bond structure, backed by federal subsidies, could face uphill battle in Congress

With Democrats sweeping into the House in the midterm elections, analysts are touting the potential comeback of crisis-era municipal bonds as part of a broader infrastructure bill.

Talk of major infrastructure legislation has gained ground as investors marked it out as the rare area where Democrats and President Donald Trump shared common ground. That has drawn speculation of the potential re-introduction of Build America Bonds, taxable municipal bonds issued by local governments to finance infrastructure projects, that came to life in 2009 when former President Obama launched a wave of fiscal stimulus measures to revive a recession-hit economy.

"It may be brought back in some form," said John Mousseau, director of fixed income at Cumberland Advisors.

The need for infrastructure spending has been felt on both sides of the aisle. The American Society of Civil Engineers estimated the total cost of leaving the U.S.'s potholed roads, aging airports and rusting bridges in disrepair amounted to more than $4 trillion by 2025. They estimated the gap needed to keep U.S. existing infrastructure in adequate shape at $1.4 trillion.

In Trump's earlier plans, he proposed the federal government would chip in with more than $200 billion through tax incentives and grants. This would serve as seed money to attract another $1.3 trillion from businesses and local municipalities, the administration had proposed.

"We have a lot of things in common on infrastructure," Trump said of the two political parties at a White House news conference after the midterm election results.

BABs have been touted as one solution to shoring up America's ailing infrastructure in part because of a strong track record in a period when local governments struggled to gain access to bond markets.

The U.S. Treasury sold more than $180 billion of BABs in their short existence before they were phased out in 2010. Some of the bonds still remain in investors' portfolios, including in the Nuveen Build America Bond Fund NBB, +0.16% and in the Taxable Municipal Bond Trust BBN, +0.20% .

Backed by federal subsidies that lower costs for the local issuers, BABs were able to offer richer yields, a feature designed to compensate for their lack of tax-exempt status but also to make them competitive against higher-yielding corporate bonds. BABs attracted a pool of non-traditional buyers including pensions funds and foreign investors, who were unable to take advantage of the tax-exempt income from municipal bonds.

But talk of federal subsidies means a municipal bond issue constructed similarly to BABs would likely face an uphill battle in Congress, even when Trump voiced support for infrastructure spending throughout his presidency.

"Resistance to the required spending, in the form of annual interest subsidies, is likely, especially as the growing budget deficit is poised to become a contentious issue in the new Congress," said Alan Schankel, municipal strategist at Janney Montgomery Scott.

After the tax cuts, fiscal conservatives in the Republican-controlled Senate may be unwilling to support another deficit-widening stimulus measure. The budget deficit is on record to widen to a trillion dollars by 2020, according to the Congressional Budget Office. Treasury bond issuance is set to rise to a more lofty $1.34 trillion this year.

And analysts say it's not clear if Congress needs to bring BABs out of retirement when the tools at hand may be sufficient.

With municipal issuance muted relative to last year, the demand for tax-exempt yield has largely ensured the success of infrastructure bond deals, meaning there are buyers in abundance and projects are getting funded. According to the Securities Industry and Financial Markets Association, municipal bond issuance is down 14% year-to-date from 2017.

Mousseau pointed to the strong demand for recent multibillion dollar bond sales funding a new terminal in New York's LaGuardia airport and a replacement for the Tappan Zee bridge, both of which relied on a mix of taxable and tax-exempt municipal debt.

"Big deals have had no problem selling bonds," said Mousseau.

Market Watch

by Sunny Oh

Published: Nov 9, 2018 7:58 a.m. ET

Finance Employees Are Fastest-Growing Segment of Local Government Workforce.

Local governments in nearly all states reported slight increases in staffing for accounting, budgeting and other areas of public finance.

Most local governments haven't been on hiring sprees lately. But one area where they appear to be adding employees is finance.

The latest data from the Census Bureau's Annual Survey of Public Employment and Payroll shows that employees working in finance-related roles increased 5.4 percent between 2014 and 2017.

While that might not be a big jump, it's significant in that it's the highest of any workforce category tracked in the Census survey.

Finance jobs peaked in 2008, subsequently declined as governments made recession-era cuts and then changed little until 2016. Since then, they've expanded at roughly double the rate of total local public-sector employment when education jobs are excluded. Other areas of local government experiencing noticeable growth, albeit at a slower pace, include transit, fire departments, parks and recreation.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | NOVEMBER 6, 2018

Stormwater Greening Is Good for Business.

Digging into the successes and stumbles of Philly's ambitious 25-year stormwater mitigation plan.

Five years ago, Philadelphia civil engineer Dennis Shelly glimpsed a business opportunity lying out in the open — or more precisely, he spied that opportunity from 22,000 miles in orbit. Satellite images made plain an idea back on Earth that has since helped him grow a business that moves water around just below the planet's surface.

Shelly heads PEER Environmental, an engineering and design firm that in its fifth year is well on the way to revenues of $1 million. PEER's specialty is green infrastructure — green rooftops, rain gardens or infiltration beds — on big plots of land. This, to shift stormwater so that it's absorbed into the ground and kept out of the city sewers. Shelly's clients are rewarded handsomely by the Philadelphia Water Department (PWD), which not only cuts their water bills — by as much as 80 percent, which can translate to tens of thousands of dollars per year — but also supplies grant funding to execute the projects. His job is the behind-the-scenes (well, underground, mostly) work of using gravity, stone, pipes, dirt and plants to manage how fast water seeps into the ground, where it can soak in gradually or even evaporate.

In 2010, the PWD changed how it calculated stormwater fees for large private customers, including big institutions and property owners. Instead of levying a fee based on monthly metered usage, the utility rolled out new rate calculations over several years based on how much area of a business's surface area, including roofing, was covered by impermeable concrete or asphalt — materials that channeled water away from buildings and into the overtaxed sewer system. The less permeable the materials, the higher the fee.

Continue reading.

Next City

by James A. Anderson

Nov 5, 2018

With Their Powers Combined, Local Governments are Changing the Clean Energy Landscape.

These days, it seems like actions by subnational governments to promote clean energy and address climate change are all the rage. Yet for all of the commendable measures from states, from emissions pledges to renewable energy or energy efficiency targets, actions at the local level are driving real, measurable change. More than 80% of the U.S. population lives in urban areas, and with fewer legal and logistical hoops to jump through, local governments can provide significant market pull for innovative clean tech.

Some recent examples illustrate cities' abilities to manufacture considerable demand for clean energy, especially when they band together. In August, a coalition of 20 U.S. cities—including Atlanta, Boston, Chicago, Houston, Los Angeles, and Phoenix—issued a Request for Information on how they could best purchase enough renewable energy to cover their aggregate municipal electricity demand of 5.7 terawatt-hours (enough to power about 500,000 average U.S. homes). The request acknowledges that most respondents are not in a position to meet 100 percent of the coalition's stated load, and is open to proposed projects that provide ancillary benefits, including local economic benefits and educational opportunities. This opens the door to a broad array of viable options, including demonstration-scale projects showcasing innovative technologies that can be used to inform residents and visitors of the cities' commitment to clean energy.

A similar effort is taking place with electric vehicles for municipal fleets across the country. After a successful Request for Information received 40 responses across all vehicle segments, Climate Mayors—a bipartisan network of over 400 mayors from nearly every state—launched an Electric Vehicle (EV) purchasing portal in September for municipal governments interested in greening their fleets. The portal is a one-stop, turnkey solution for mayors of some of the largest cities in the country; when viewed in conjunction with recent action at the federal level to boost DOE's Advanced Technology Vehicle Manufacturing Program, there is an unmistakable trend of increasing technology push and market pull in the EV space.

These are just two of the higher-profile opportunities that are being spearheaded at the local level, and highlight the collective influence cities can have. But smaller-scale opportunities present themselves every day, from a 200 megawatt Request for Proposals in Austin, TX, to a solicitation for a mere 10,000 kilowatt-hours per year in Caroline, NY (population: 3,481).

American cities are growing, and they represent a reliably constant source of demand for energy, and for clean energy in particular. There are opportunities out there for companies of every size to gain a foothold in this booming market.

by Taite R McDonald and Michael Obeiter

October 24 2018

Holland & Knight LLP

P&G Agrees to Settlement Over "Flushable" Claims.

Several years ago, consumers filed class action complaints against Procter & Gamble, alleging that

P&G falsely advertised its Charmin Freshmates Flushable Wipes as “flushable.”

Recently, the parties asked the court to approve a settlement of the class action, which included consumer refunds of 60 cents for each package they bought and payment to the attorneys for fees and costs of approximately $2.1 million. As part of the settlement, P&G agreed that the wipes — which have now been reformulated — would comply with various testing protocols and would include a statement on the packaging which says, “Use only in well-maintained plumbing systems.”

The plaintiffs alleged that although P&G made claims such as “flushable,” “septic safe,” and “safe for sewer and septic systems,” the wipes were not actually suitable for disposal by flushing down an toilet, are not regarded as flushable by municipal sewage system operators, do not disperse upon flushing, and routinely damage or clog plumbing pipes, septic systems, and sewage lines and pumps. P&G denied the allegations, maintaining the wipes performed as advertised.

When the FTC revised its Green Guides in 2012, it wrestled with the issue of whether to include guidance on how consumers would interpret flushable-type claims, but ultimately decided it didn’t have enough information to do so. At the time, the FTC wrote that, “because the record contains no evidence regarding how quickly consumers would expect a substance disposed of in the liquid waste stream to fully decompose, the final Guides also do not provide general guidance on this issue.” Even without issuing specific guidance, however, the FTC has gone after “flushable” claims in the past as well.

With all green claims — regardless of whether the FTC has provided specific guidance about them — it’s important to consider whether consumers will experience the full, intended environmental benefit. Even if a product may be technically “flushable,” for example, you’ll also want to consider whether the product will perform as consumers will reasonably expect, and whether there will be any unexpected, adverse impact.

by Jeff Greenbaum

November 5, 2018

Frankfurt Kurnit Klein & Selz PC

America's Largest Three Cities' Financial Condition Is Scary.

Just in time for Halloween and Día de los Muertos (Day of the Dead), municipal finance watchdog, Truth in Accounting (TIA) published its financial analysis on the United States’ top three most populated cities–New York, Los Angeles, and Chicago. Unfortunately, the fiscal condition of these cities is scarier than any costume you have seen this week.

TIA, a non-partisan, not-for-profit municipal finance organization created in 2002, gave New York and Chicago a failing grade of ‘F’ and Los Angeles only a notch above, a ‘D.’ New York City only has $58.5 billion in assets to pay $244 billion in liabilities. Growing retiree health costs are a primary reason for this shortfall. This significant gap means that every New York City resident has a tax burden of $64,100; moreover, this burden grew by $1,600 since last year and has grown every year since 2014. To put that number into context, the median household income in New York City is $60,879.

Continue reading.

Forbes

by Mayra Rodriguez Valladares

Nov 1, 2018

Meet the Municipal Bond Investor Who Looks Everywhere for Deals.

Nothing hampers a good money manager quite like a restrictive investment style. This can be especially so with bond managers, as bond returns are generally lower than those of stocks and often similar for specific kinds of bonds that move in lockstep with another, so long as none default.

Of course, flexibility's no guarantee of success. After deducting their fees, managers with bad luck or little skill will underperform their benchmarks even more than index-hugging peers if they choose to "think outside the box" with the wrong securities. But for a skilled manager, a go-anywhere style will produce the best results.

Such is the case with Adam Weigold of Eaton Vance Municipal Opportunities (ticker: EMOAX).

"We started this fund in 2011 as one that would have full flexibility to go anywhere in the muni market and essentially seek out the best returns," Weigold says. "Back then, that was very unusual in our market." Such flexibility has enabled him to beat his benchmark—the Bloomberg Barclays Municipal Bond Index—and 97% of his peers in Morningstar's Muni National Intermediate fund category over the past five years. The $1 billion fund's cumulative return since its May 2011 inception is 42%, versus the benchmark's 31%, and almost double the fund category's 23% average.

And that's despite having a higher-than-average 0.96% expense ratio.

The municipal-bond market favors managers who do deep credit analysis because it's so opaque and fragmented, allowing investors who turn over a lot of rocks to find undiscovered gems. "There are about 60,000 credits in our market with 1.2 million Cusips [the equivalent of ticker symbols for stocks]," Weigold says. "We have one of the deepest benches in credit research here with 16 analysts."

A favorite strategy currently that plays to Eaton Vance 's analytical strengths is to find possible takeover candidates in the municipal hospital sector. Bonds for takeover targets usually receive a credit rating upgrade when they're acquired by a bigger hospital with a stronger balance sheet. Such upgrades also cause the value of their bonds to rise.

"Look at Care New England Health System (Cusip: 14165LAA3), which is our fifth-largest holding," Weigold says. "This is a BB-rated hospital [in Rhode Island] that is currently being acquired by Partners HealthCare, which is located up here in Boston and is an AA-rated hospital. So when that merger occurs, the bonds that I bought at a BB level will become AA and the yield spreads [between the lower-rated and higher-rated bonds] will compress as prices go up." In consequence, Care New England has been one of Weigold's best performers. As of the end of September, such hospital bonds accounted for 21% of his portfolio.

While credit research is vital to Weigold's strategy, the best bonds in the wrong sector for the current macroeconomic environment often still won't work. So he adjusts his portfolio based on his macro outlook. This year, the fund increased its weighting to 18% in floating-rate muni bonds such as those issued by Connecticut's Hartford HealthCare Obligated Group (20774YVL8) and New York's Triborough Bridge & Tunnel Authority (89602N6Q2). Such bonds adjust their yields with interest rates, acting as a "defensive strategy" in our current rising interest-rate environment.

An alternative defensive strategy would be to buy regular short-term bonds that are less sensitive to rate increases. Yet Weigold says "everybody and their brother is doing that," and, as a result, "the front end of the muni yield curve has gotten a little rich." Still, he has been buying lower-quality B- to BBB-rated short- and intermediate-term bonds with durations in the one-to-five year range, which he says offer better value: "That has been one of our big calls this year so we could take some interest-rate risk off the table but not necessarily give up the income. And that has been a good place to be year to date." As of Sept. 30, 44% of the fund was in bonds rated BBB or below, an increase from 35% a year ago.

The other big macro theme that Weigold is focusing on is the recent federal tax reforms' impact on munis, which is far more complicated than it appears on the surface. For instance, while the decrease in the top federal income-tax rate from 39.6% to 35%, and the corporate tax rate, from 35% to 21%, makes muni returns less attractive to individual and corporate investors, the capping of the state and local tax, or SALT, deduction at $10,000 makes munis much more attractive in high tax states like California and New York, as high earners can no longer write off much of their income.

"The SALT deduction cap is going to hit these tax payers in high-tax states much more than they realize," Weigold says. "They'll be looking to shield their income once they do their taxes in April." Almost a year ago, he had 11% of his fund in California bonds, but has since reduced that weighting to 8% because of valuation concerns and shifted assets to New York ones, which are now 16% of the fund. "California demand has been off the charts because it has a top tax rate of 13%," he says.

Another tax-reform-related strategy is to buy bonds subject to the alternative minimum tax, or AMT, which exists to ensure that the highest earners pay some tax. AMT bonds were once considered unattractive because the wealthiest investors couldn't benefit from the bonds' tax-free yields. But the new tax laws will dramatically reduce the number of rich Americans subject to the AMT from five million in 2017 to 200,000 this year, according to Tax Policy Center's estimates. That means AMT bonds, which generally yield more than non-AMT ones to entice investors to buy them, will now be tax-free for more investors. One of Weigold's largest positions, a BBB-rated muni bond for Delta Airlines (650116CG9) to build a new terminal at LaGuardia Airport in New York, is an AMT bond.

"The idea is that come April of next year, when muni buyers figure out they're not subject to AMT, they might be more interested in paying for AMT bonds," Weigold says. "So we've increased our AMT exposure to almost 15% from about 9% earlier in the year." It's that sort of astute maneuvering that should help Weigold stay ahead of his peers going forward.

Barron's

By Lewis Braham

Nov. 1, 2018 11:08 a.m. ET

Report Recommends Ways for Cities, Schools to Finance Electric Buses.

Dive Brief:

- The U.S. PIRG Education Fund released a report examining how transit agencies and school districts can finance a switch from diesel or natural gas to electric buses, considering the higher up-front electric bus cost remains the largest deterrent.
- The report suggests that cities consider financing through municipal bonds, local option transportation taxes and federal, state and regional grant or incentive programs. It also suggests partnering with utilities to lock in favorable rate structures to help with the cost of charging vehicles.
- The report explains that initially, electric transit buses are 40% more expensive than diesel versions, and electric school buses are more than double the cost of diesel versions. However, electric buses reportedly provide cost savings over their complete lifecycle.

Dive Insight:

The report recommends that cities and school districts immediately stop purchasing diesel buses and commit to a transition to electric buses by 2030 to reap the most health, environmental and long-term cost benefits.

Municipalities frequently struggle with the best way to fund programs and big ticket purchases with their tight budgets and sometimes waning financial support from the federal government. Electric buses are one item that some cities are hesitant to adopt solely because of the high cost of purchasing the vehicles and necessary infrastructure.

But price differences between electric and diesel or natural gas buses continues to narrow as the market expands and technology improves. The report offers formulas for calculating cost differences between electric and diesel buses as well as operating costs over time. Those and the financing recommendations could help municipalities discover viable solutions for making the transition to electric vehicles.

Smart Cities Dive

by Katie Pyzyk

Oct. 31, 2018

Credit Rating Superdowngrades Only Confuse Investors.

What does it mean that S&P lowered Illinois sales-tax bonds five steps in one shot?

Coming into this week, Illinois's $2.5 billion in sales-tax bonds carried an AA- grade from S&P Global Ratings, the fourth-most pristine rank. By the firm's own system, that signified "very strong" financial security characteristics differing only slightly from those rated higher.

In one fell swoop on Tuesday, S&P slashed those bonds by five steps. At BBB, just two levels above junk, that same debt suddenly has merely "adequate" protections that could be threatened by an economic downturn.

I have colloquially referred to this type of large rating cut as a "superdowngrade" in the past. Usually it happens to smaller borrowers facing some unexpected and specific source of financial stress. In the case of Illinois, though, S&P simply revised its criteria for priority-lien tax revenue debt and ratcheted the ranking lower accordingly.

For the moment, set aside the question of which rating is more justified. This sudden and drastic action does nothing but create confusion for bond investors. It reinforces how rating companies still struggle to properly grade municipal debt, which can be backed by various revenue streams and have different levels of legal protection from state to state. S&P's move isn't exactly a ringing endorsement for its judgment when looking to buy bonds in Illinois.

This is hardly the first such instance of credit ratings in Illinois that jolt the $3.8 trillion municipal market. In fact, those same Build Illinois bonds were downgraded five levels in May by Fitch Ratings, which also cited revised criteria that required it to give greater consideration to the state's general credit quality. In 2015, I wrote about how Chicago's sales-tax debt was rated AAA by S&P but considered junk by Moody's Investors Service because of differences in how the two firms evaluated such securities. Investors had trouble figuring out the right price.

Speaking of Chicago, this shake-up comes at an awkward time for the Windy City, which was supposed to be in the market this week selling $1.3 billion of debt through its recently established Sales Tax Securitization Corp. It postponed the deal because of what a Chicago spokeswoman called "recent market fluctuations," though some investors speculated that S&P's move rattled the market. Bloomberg News's Elizabeth Campbell reported that debt due in 2053 was being offered for a top yield of 4.37 percent. For Chicago, that's quite cheap borrowing if it can still get it.

But back to the Illinois bonds. S&P's report says they have a "strong credit structure that we believe largely insulates bondholders from economic and revenue volatility." That sounds about right for the previous AA- rating. But then it goes on to say this:

> "To date, the Build Illinois bond program's authorizing legislation has restricted its use to financing capital and infrastructure projects. While this remained the case even throughout the state's two-year budget impasse, future legislatures could enact laws broadening the program's allowable uses … in a scenario of severe fiscal distress, which we believe the state is susceptible to experiencing, a legislative expansion of the Build Illinois bond program's authorized uses is conceivable."

Those are two radically different views of the perceived safety of Illinois's sales-tax bonds. On the one hand, investors are well-protected from any economic downturn or revenue shortfall. But also, everything could change, particularly in the not-that-improbable case of severe fiscal distress. Talk about whiplash — which is it?

In truth, the new BBB rating is probably the right one, and anyone buying bonds tied to Illinois (with a BBB- grade overall) probably knows it. But that still doesn't excuse that it took so long to happen. Credit-rating firms suffered serious blows to their reputations during the financial crisis. Moody's, S&P and Fitch also settled claims in 2011 that they unfairly gave lower grades to public bonds than they should have. Altering their criteria to better reflect creditworthiness is necessary, of course, but when it happens regularly and involves a massive shift up or down the ratings scale, it's fair to question why the old model was so off-base.

Muni mutual-fund managers will say that they do their own analysis rather than rely on ratings. The mom-and-pop investors who frequent the tax-exempt bond market don't all have the same luxury. Sure, these grades aren't a perfect science. But considering all three firms both trace their roots back more than a century, you'd think there'd be just a bit more consistency.

Bloomberg Markets

By Brian Chappatta

November 1, 2018, 5:00 AM PDT

The Muni Meltdown that Wasn't.

The Muni Meltdown That Wasn't, a Bloomberg Brief, discusses the "inexpert testimony" that flew fast and furious during the panic of 2010 and questions why the opinion of non-experts was taken so seriously – especially in light of the fact that none of their dire predictions about an imminent municipal bond market collapse came to pass.

The brief analyzes the predictions, hyperbole, and fact, and provides five major lessons learned:

1. The municipal market is particular and specific to a remarkable degree. Hysteria proponents either ignored or didn't know about the incredible variety of securities and credits sold generically as "municipal bonds.'' They generalized.
2. Beware inexpert testimony; not all points of view are legitimate and credible.
3. Many of the dire predictions about the market were politically informed.
4. Municipalities that are legally allowed to file for Chapter 9 will do all they can to avoid it.
5. Twitter is a good source of breaking news and analysis; dismiss it at your risk. (The paper dates the "muni market meltdown hysteria" as starting in 2009, at which point those who understood the municipal market weren't talking about it on social media. That had started to change a few years later, and if the inexpert testimony had started then, "any such 'meltdown' call would have been mitigated, even refuted, by the very same Internet that had given birth to it.")

Wednesday, February 4, 2015

Meredith Whitney Was Flat-Out Wrong About Municipal Bonds.

Her call on massive state and local government defaults was way too early and might never pan out.

That's what Howard Marks, chairman and co-founder of Oaktree Capital Group LLC, wrote in a memo to clients about 11 years ago. Around that same time in late 2007, banking analyst Meredith Whitney made a prescient negative call on Citigroup Inc. that exacerbated a market sell-off and, she said, prompted death threats. Perhaps emboldened by that experience, she made another headline-grabbing prediction in a December 2010 broadcast of CBS Corp.'s "60 Minutes" program: There would be "50 to 100 sizable defaults" in the U.S. municipal market in the coming year, totaling "hundreds of billions of dollars."

That didn't happen. Her call was widely ridiculed — and remains so to this day — by members of the $3.8 trillion municipal market. In November 2014, Bloomberg News's muni maven Joe Mysak provided a comprehensive takedown: a 34-page special report titled "The Muni Meltdown That Wasn't."

Well, she's back. Or, at least, the ideas that Whitney represents. The Wall Street Journal published an article last week titled "Prophet of Muni Market Doom Wasn't Wrong — Just Early." The takeaway is that Whitney simply erred by putting a precise number and time period on her prediction, but her analysis was sound.

"Since then a dramatic decline in the finances of state and local governments has made it increasingly likely that she will be remembered as right but early. Municipal bond investors should heed the warning … ratings firms and fund managers in the sleepy sector operate under the assumption that everything will somehow continue to work out."

First of all, Whitney is hardly a "prophet." Six months before her "60 Minutes" appearance, none other than Warren Buffett predicted a "terrible problem" for state and local government debt in the years ahead. Second, a large swath of investors in the so-called sleepy market were wide awake ahead of defaults from Detroit and Puerto Rico. Their reckoning was a long time coming, and many of those bonds wound up in the hands of distressed funds. Lastly, a reminder: Being early is the same as being wrong.

Few muni investors are oblivious to Whitney's criticisms of state and local government finances. I've read her book, "Fate of the States: The New Geography of American Prosperity." It's easy to fly through because the analysis is uncomplicated and it repeats the same conclusions. Some states (primarily on the coasts) have too much debt and have inflated promises to retirees, the argument goes. People will take note and pack up for places with lower tax rates and cheaper cost of living.

No one's denying that's what happened over the span of decades in Detroit, nor that a population exodus helped exacerbate Puerto Rico's woes. Illinois, the lowest-rated U.S. state, is starting to face a similar problem, with a steady trickle of outmigration for four consecutive years. The Chicago Tribune's editorial board declared that "what we call the 'Illinois exodus' is real." I've written about how Connecticut officials shouldn't outright dismiss the possibility that the state could one day default, in no small part because of demographic shifts.

The thing that Whitney and her ilk failed to grasp was that for all but the most distressed cities, the issues of a demographic death trap and pension funding remain firmly a long-term question — even now, eight years later. Yes, maybe state and local governments could have done more to shore up their systems during this bull market in stocks. But their tax revenue exceeded their 2008 levels only once in the following six years as the economy recovered from the recession, according to Census Bureau data. That's hardly a palatable time to dump money into pensions.

And yet the plans as a whole aren't in as dire shape as many might think. A study last year by Milliman found the aggregate funded ratio of the 100 largest public pension plans was 70.7 percent, even though one-third of the funds reduced their discount rates, which makes their figures look worse (though probably more truthful). A 100 percent ratio isn't necessarily optimal at a given point in time — in fact, research suggests 80 percent is a reasonable level. Taken as a whole, state and local government pensions aren't so far off that a doomsday is inevitable.

Not surprisingly, the outliers steal the spotlight. "Zooming in on the weakest links is downright scary," the Whitney article says, pointing to Connecticut, Illinois and New Jersey. It's true that those states have real problems and politicians can no longer employ the tried-and-true method of passing the burden to their successors. But the death knell isn't necessarily higher interest rates, as the article describes. In fact, for pension funds, which invest a healthy amount in fixed income, a return to historically normal yield levels should provide a source of safe returns that was absent for much of the post-crisis era.

It's fair to ask whether some states and cities are prepared to withstand another deep recession. Or whether 177 basis points of extra yield is enough to compensate for the risk of owning Illinois debt versus top-rated munis. But it's simply revisionist history to say Whitney was right all along with her 2010 call, which ignited a bout of panic in the municipal market about events that never materialized. The truth is, she whiffed.

Bloomberg Opinion

By Brian Chappatta

October 30, 2018, 2:30 AM PDT

KBRA Releases Public Finance Research Report: Untapped Resources May Help Fund Pension and Infrastructure Shortfalls

NEW YORK–(BUSINESS WIRE)–Kroll Bond Rating Agency (KBRA) comments on the substantial assets many state and local governments control in the research report, "Untapped Resources May Help Fund Pension and Infrastructure Shortfalls." The report notes the benefits of using assets to fund critical public sector needs and further details the principal credit considerations for state and local governments.

KBRA describes two examples of state owned assets being used or considered for addressing unfunded pension liabilities. Firstly, New Jersey has contributed its statewide lottery enterprise to its pension funds. Also, Connecticut is considering a similar approach with its lottery or other assets. State and local officials face difficult choices with limited resources as they develop programs that use assets to solve critical funding shortfalls.

October 30, 2018

Higher Revenues, Restrained Spending Boost U.S. States' Credit Quality.

NEW YORK — The credit quality of U.S. states is improving, with revenue growth and spending moderation helping to halt a downward trend, according to a report to be released later on Tuesday.

States' revenue growth is higher than national economic growth in current dollars, the bi-annual report from global investment management firm Conning Inc found.

The boost in credit quality to "stable" is Conning's first higher outlook, up from "declined," on states in two and a half years. The firm manages more than $9 billion of municipal bonds in client portfolios.

"There's no reason to believe that this shouldn't continue for a while," Paul Mansour, head of Conning's municipal credit research, told Reuters.

Understanding credit trends can help investors determine how to buy and price bonds and businesses decide where to locate.

States struggled after the 2007-2009 recession, some cutting spending because businesses closed and residents lost jobs or earned less and therefore paid less in taxes.

Economies have improved since then. In late 2017, Moody's Investors Service had a stable outlook for U.S. states because of modest, continued revenue growth.

Fitch Ratings also had a stable outlook, sounding a note of caution about uncertainty over federal tax policy and politics.

And while equities markets have taken a beating lately, that is not likely to be reflected in state pensions' funded ratios because of a lag in reporting. Most of them will report later this year on fiscal 2018 results through June 30.

State revenues grew 7.4 percent during the 12 months that ended June 30, to $1.03 trillion, Conning's report noted.

Strong consumer confidence manifested in sales tax growth as personal incomes rose. States are also exercising caution on both debt issuance and expenditures, Mansour said.

Many states have used their revenue surges to bolster rainy day funds, even Connecticut. Previously among Conning's five lowest rated states, Connecticut's rainy day replenishment helped it rise to the 44th spot, as did the weakening of some other states.

Mississippi, Louisiana and Kentucky are Conning's three lowest ranked states, with Colorado, Idaho and Utah ranked highest.

"Economic growth throughout the country has lifted all boats. The raw scores have all improved. Home prices increased in all states," he said. "But there are some laggards."

Illinois and New Jersey continue to lag behind. Both are ranked in the bottom 10 states, with high debt levels, low reserves and slow growth compared to others, leaving them more vulnerable in any future recession, he said.

By Reuters

Oct. 30, 2018

(Reporting by Hilary Russ; editing by Clive McKeef)

Fitch Ratings: Aging Looms As Key Economic, Fiscal Issue for US States

Fitch Ratings-New York-01 November 2018: Unprecedented aging demographics in a number of U.S. states will increasingly constrain economic growth over the coming decade, with knock-on effects for state revenue and expenditure profiles, says Fitch Ratings. Seventeen states are forecast to be "super aged" by 2026, according to the U.S. Census Bureau, including Florida, Michigan, Pennsylvania and Ohio. No states are in this category today.

Societal aging in the U.S. is expected to accelerate over the next twenty years as population growth slows and the baby boomer generation reaches retirement age. While there will be marked variation between states, general demographic trends point to more aging and slower working age population growth in almost every state.

Continue reading.

The Week in Public Finance: What the Aging Population Means for State Finances

One-third of states will be "super-aged" by 2026, weighing down economies and finances for years to come.

Last week, Vermont was downgraded a notch by Moody's Investors Service, which cited pension debt and slow economic growth as the culprits. Connecticut knows a thing or two about that; it has struggled for years with downgrades due to lackluster growth.

But there's something else affecting these states' ratings: older populations. And the two are far from alone.

Declining working-age populations has already been a trend in 10 states over the past decade. But what's happening in Connecticut and Vermont may be foreshadowing what's in store for about one-third of the country. By 2026, a total of 17 states will move into the "super aged" category, meaning that at least 20 percent of their populations will be 65 or older, according to a recent report by Fitch Ratings.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 2, 2018

S&P: U.S. State Pensions Struggle For Gains Amid Market Shifts And Demographic Headwinds

In the decade since 2008, when pension funds in the U.S. reported steep investment losses, overall state pension plan funding levels stabilized but have still not fully recovered to pre-recession levels.

Continue Reading

Oct. 30, 2018

S&P Credit Conditions: For U.S. State And Local Governments, Winter Is Coming, But Maybe Not Yet

Throughout 2018, S&P Global Ratings has highlighted the role of accelerating economic growth as a cause of improving credit conditions among the U.S. states. The central takeaway from our most recent economic forecast suggests that the positive tone should persist at least through the next six months-to-one year.

Continue Reading

Oct. 24, 2018

Statement by U.S. Conference of Mayors on Motion Filed with the FCC by U.S. Cities and the National Local Government Organizations to Stay the Effective Date of its Order Preempting Local Authority.

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on the Conference of Mayors joining with cities and other local government interests across the nation in requesting the FCC to stay the effective date of its recent order substantially preempting local authority over the installation of small cell facilities in local rights-of-way and local public infrastructure:

> "The U.S. Conference of Mayors and more than 60 cities, counties and local government organizations throughout the U.S. filed a motion with the Federal Communications Commission last evening to stay the effective date of its recent order that substantially preempts local governments' authority over their own rights-of-way and infrastructure. This action would allow local governments to have their day in court and be heard on what many consider an unauthorized taking of local property and an unwarranted usurpation of elected local government authority by this unelected federal regulatory agency.
>
> "We urge the FCC to use our motion as an opportunity to grant a stay and allow the court to speak directly to the agency's actions. The stay would also avoid the complete upheaval that would occur, as thousands of U.S. cities and counties scramble to rewrite longstanding and well-established local rights-of-way and permitting rules and procedures between now and early January, complicated further by federal and religious holidays in between.
>
> "It is wasteful and needlessly disruptive to ask the nation's nearly 20,000 municipalities and more than 3,000 counties to comply with this ill-conceived and intrusive new federal regulatory regime by January 13, especially when the FCC knows full well that its order relies on broad and activist interpretations of federal law that were certain to be challenged vigorously in federal court. By refusing to accede to local requests to set compliance deadlines that made sense, the FCC has shown its complete and utter disregard for the burdens local governments and their officials confront in working every day to fairly and effectively manage our most valuable public asset – local public rights-of-way and infrastructure – on behalf of all the many public and private users and beneficiaries, not just a few FCC-preferred companies."

Cities Threatened by Climate Risk Still Getting AAA Bond Ratings.

- **One year later, no climate downgrades from Moody's, S&P, Fitch**
- **Investors say ratings still overlook risks of extreme weather**

Last fall, after a trio of deadly hurricanes, ratings companies warned vulnerable coastal cities to get ready for climate change — or face higher borrowing costs on the $3.9 trillion municipal bond market. Climate advocates cheered, hoping the prospect of downgrades would push local officials to better protect their residents from the effects of global warming.

Twelve months, two catastrophic storms and thousands of credit ratings later, those companies have yet to downgrade a single city because of climate change. The companies, which include Moody's Corp. and Fitch Ratings Ltd., say that's because cities are taking steps to protect themselves.

Continue reading.

Bloomberg

By Christopher Flavelle

November 2, 2018, 1:00 AM PDT

'Living With Water': Facing Climate Change, Cities Trade Sea Walls for Parks.

City planners now say they are increasingly turning to methods aligned with the Dutch concept of "living with water." Instead of resisting water, cities are channeling it to where they want it to go.

To protect itself from a devastating flood, Boston was considering building a massive sea wall, cutting north to south through nearly 4 miles of Boston Harbor, taking $11 billion and at least 30 years to build. But a new plan unveiled in October represents a 180-degree turn: Instead of fighting to keep the water out, the city is letting it come in.

Boston Mayor Martin Walsh, a Democrat, announced the city would be scrapping the idea of a sea wall in favor of, among other things, a system of waterfront parks and elevation of some flood-prone areas. The city will add 67 new acres of green space along the water and restore 122 tidal acres.

The idea is to give people access to the shoreline when the weather is nice, but when the parks get flooded—well, it's not that big of a deal.

Continue reading.

Route Fifty

By Rebecca Beitsch

November 3, 2018

Who Buys Municipal Bonds And Why.

As a student of municipal bond defaults I was mystified for many years by the question of why individual investors chose to invest heavily in low yielding municipal bonds. The main attractions touted by them was their freedom from federal income taxes, but this did not explain why so many retirees and individuals of limited taxable income also chose to make muni bonds a significant part of their investment portfolio. In fact, many made this their entire venture into securities investing.

I believe the attraction of municipal bonds lies in how they where sold, that is as a very safe security that served a public purpose and rewarded you with the added bonus of being tax exempt. In fact, the tax exemption feature is overly valued by even individuals with modest taxable income because, as one retired investor told me, they simplify your life. What he meant by this is that he could ladder his monthly income flow with munis without worrying about the state of the economy or the stock market or about the need to file a tax return and disrupt his routine by suddenly having to file a tax return or come up with money for a tax payment. Until we reach those golden years, we fail to realize that people reach a point where getting to bed at 10 PM each night and not have a worried sleep is worth accepting a lower but steady return. Munis, CDs and annuities find a home among such investors despite each products unfavorable features.

Note however that there will always be investors who want their cake and eat it too. Such investors become the owners of municipal bonds sporting seven and eight percent coupons. They want equity returns and think the low risk attributed to munis is generic. Underwriters have taken advantage of this misconception to peddle junk debt issues labeled as municipals which could never be sold without the aura of a municipal authority. Yes, the offering statements usually make this all clear because they know that investors won't read them. Want to start a nursing home chain, housing project or environmentally friendly project all without a dime of equity? Offer them an 8% municipal bond issue and they come running. Build in a two or three year debt reserve and you're golden. The list of horror stories and even outright fraud is endless. Even opting to invest via a muni mutual fund is little protection since they have to compete for funds and payout percentages are what counts with these folks.

One abuse gaining a lot of traction are bonds issued to fund a municipalities pension funding obligation. Imagine a governmental entity that pretends it can borrow money and reinvest it at a higher rate of return than it pays out. If this were true, wouldn't we fund all government spending that way? The facts are that government is sucking in 'prudent investors' so that when the day of reckoning comes with its public employees, bondholders and pensioners it can stiff some 'fat cats' who thought they could profit from the labors of government employees who, incidentally, they have been lying to for decades. Were this not the case, municipalities would be issuing their bonds directly to the pension funds thereby earning the pension funds a higher rate of return. But this would of course would not do since it leaves out the underwriters and their fees, and we can't have that. But then capitalism has never been about fairness, has it?

This article appears in the November 2018 issue of the Distressed Municipal Debt Securities Newsletter.

Forbes

by Richard Lehmann

Nov 3, 2018

U.S. Municipal Bond Market Struggles to Find Footing.

NEW YORK, Nov 2 (Reuters) – The typically steady-as-she-goes U.S. municipal bond market is beginning to tread on shaky ground, with continuous mutual fund outflows, weaker prices and rising supply in recent weeks.

That, coupled with an expected bump in year-end tax-loss selling, has made participants cautious in the roughly $3.85 trillion market where states, cities, schools and other issuers sell debt.

“On the munis side of things, there have been some challenges and we’ve seen some of those challenges in the last few weeks,” said Peter Hayes, head of BlackRock’s Municipal Bonds Group.

Rising interest rates and inflation concerns have been alarming investors, while potential volatility tied to the outcome of the U.S. congressional elections next week has also kept market participants on their toes. Added seasonal selling of municipal bonds through the end of the year is fueling yield increases.

In the week ended Oct. 31, muni fund net outflows totaled $1.3 billion, the largest since December 2016, following five consecutive weeks of negative flows, according to Lipper data released late on Thursday. Year-to-date, the S&P Municipal Bond Index was down 0.88 percent.

Through the end of the year, the muni market could see an uptick in investors selling their holdings at a loss as a way to offset tax obligations for gains in other more profitable asset classes, like equities, Hayes said.

Supply of new bonds has started to increase in the last few weeks, after sluggish issuance for most of 2018. However, this latest increase is being met by slipping demand.

“All of those things mean that it will probably take slightly higher yields in order to clear all that paper,” Hayes said.

Signs of weakness in the muni market emerged in early October as investors fixated on Federal Reserve rate hikes and inflation fears.

Large moves up in rates are generally a precursor to outflows, said Barclays municipal credit analyst Mikhail Foux, adding: “And that’s what we have this year.”

Foux said he is watching rates and eyeing next week’s election results.

by Laila Kearney

Municipal Bond Funds Are on Sale. Buyers Should Be Cautious.

Many closed-end municipal bond funds are selling at big discounts to their net asset values, offering some interesting opportunities and nice yields—though investors need to be careful.

“If you are more selective and you are going to own these [funds] for the long term, there is probably some value,” says Sangeeta Marfatia, senior closed-end fund strategist at UBS Global Wealth Management.

Closed-end funds, which trade on an exchange, often use leverage to boost their returns. In theory, investors can benefit several ways. There’s the total return, including the yields, of the fund’s holdings — and the price appreciation of the shares. Price discounts can provide some measure of safety.

In 2018 many of these closed-end funds have fared much worse than the overall municipal bond market, which is down roughly 1%. As a result, numerous closed-fund muni funds trade at wide discounts to their net asset values. The accompanying table lists five.

One factor that’s pressured prices is tax-loss selling, says Marfatia. Investors can pare their losses with gains to reduce their tax liability. With rates moving up, funds that use leverage face higher borrowing costs as well. And some funds have had to cut their distributions.

In July, for example, BlackRock announced it was cutting the monthly distribution for the BlackRock Municipal Income Investment Quality Trust (BAF) from 6.85 cents a share to 5.85 cents. “The distribution change was made in order to better align the fund’s distribution rate with its current and projected level of earnings,” according to a BlackRock spokesperson.

The fund was recently yielding about 5.6% and trading at nearly a 14% discount to its net asset value, according to CEF Connect. Its one-year price return was recently minus 12.3%, but its net asset value had returned minus 1.7%.

It was hardly alone in cutting its distribution.

“Many of the funds in this sector have been reducing dividends and while it is factored into the market on some level, it’s important for investors to be aware of the possibility,” Jonathan E. Lewis, chief investment officer at Fiera Capital, noted this week.

The good news is that among fixed-income sectors, “muni closed-end funds may be one of the best values available,” asserts Lewis.

He points out that the 40 closed-end funds in which Fiera invests are trading at about a 14% discount to their net asset value, compared with an average discount of 5.4% since late 2004. The entire universe of these funds — about 180 in total — is trading at about an 11% discount — the cheapest level since the financial crisis, says Lewis.

Lewis, who advocates holding a basket of these funds as a diversification tool, says these discounts could narrow.

One possible outcome: “If rates are near an intermediate-term top, retail investor sentiment becomes positive in a search for yield,” he observes. These funds are predominately held by retail investors.

Under such a scenario, he says, investors could still earn a 5% yield and get some price appreciation, possibly bringing a 10% total return over the next 12 months. It’s important to remember that a 5% yield on a municipal bond is equivalent to a higher yield on a taxable credit. That’s because the interest on munis is exempt from federal taxes and often from state and local levies as well.

Of course, if rates continue to rise, it would pressure bond prices and the returns of these funds. And these funds can be volatile. “If somebody decides to sell a big position, they are going to take the price down,” says Marfatia.

Barron’s

By Lawrence C. Strauss

Nov. 1, 2018

Fitch Ratings: U.S. States Eye Midterm Election Outcomes

Fitch Ratings-New York-31 October 2018: Next week's midterm elections will determine who will lead states in the coming years, with voters also deciding the fate of wide-ranging initiatives that are relevant for state, health care and public power credits, according to Fitch Ratings in a new report.

Votes for governor in 36 states and the majority of state legislative seats will be determined next week. Although Fitch rates to fundamentals rather than the political cycle, a material change in fiscal policy and/or increased or reduced contention in financial decision-making can be relevant for credit performance, particularly if and when the broader economy slides into recession. Due to biennial cycles, most states will be debating budgets in 2019.

Voters in several states are considering limits on revenue raising powers, a trend that Fitch notes with concern because it reduces operating flexibility. States to watch in this area include California and Florida.

Medicaid expansion, a proven boost for health care providers in expansion states, will come to the forefront for voters in Idaho, Montana, Nebraska, and Utah, who are weighing in on Medicaid expansion under the ACA.

The broader wildcard headed into next week is party control at the federal Congressional level, which is relevant for state credit. 'Uncertainty at the federal level, particularly as it relates to Medicaid funding and tax and trade policy, continues to be a key risk for states,' said Managing Director Laura Porter. 'More clarity about future federal policy direction would support more informed forecasting and policymaking at the state level.'

'November State Election Results to Watch' is available at 'www.fitchratings.com'

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Democrats Eye Push for Infrastructure Plan If They Retake House.

- **Leaders have discussed seeking major spending plan in 2019**
- **Disagreements on funding doomed past efforts and could again**

Democrats are planning to pursue a major U.S. transportation and infrastructure measure if they retake control of the U.S. House in the Nov. 6 midterm elections, but the same question that helped stall Donald Trump's trillion-dollar initiative remains: How would it be funded?

Representative Peter DeFazio, who's in line to become chairman of the House Transportation and Infrastructure Committee, has said Democrats would seek a spending measure for roads, bridges and other public works if they take power. Nancy Pelosi, who could become speaker again, said it may be something Democrats can do with the Republican president.

"One of my themes is build, build, build," Pelosi said at an Oct. 22 event hosted by CNN. "Build the infrastructure of America from sea to shining sea. Not only surface transportation but broadband and water systems."

Trump said in an Oct. 17 interview on Fox Business News that "infrastructure is going to be starting after the midterms and we think that's going to be an easy one.''

Despite the bipartisan enthusiasm for the idea, several recent efforts to reach agreement on a major bill have all faltered — and ballooning federal budget deficits along with growing partisan rancor will make it even harder.

House Democrats could start hearings in late January if they take power, with the aim of crafting a bill that could pass by May, said Ed Rendell, the former Democratic governor of Pennsylvania who co-founded Building America's Future, a bipartisan coalition of officials that promotes infrastructure spending.

Philadelphia Meeting

Rendell said he and other transportation advocates met Oct. 23 in Philadelphia to discuss a potential Democratic bill with Representative Earl Blumenauer, an Oregon Democrat and member of the House Ways and Means Committee.

A spokesman for Blumenauer declined to discuss the meeting, but said the representative is exploring the idea of creating a subcommittee on infrastructure with his colleagues and stakeholders around the country.

DeFazio also didn't provide specific details but said in a statement that "it's well past time for Congress and the Trump Administration to get serious about our infrastructure needs."

Broadband Access

A Democratic majority "will prioritize investment to rebuild our transportation networks, boost affordable housing, and expand broadband access in towns and communities," said Representative David Price, a Democrat from North Carolina who serves on the the House Appropriations Committee and is the top Democrat on the Transportation, Housing and Urban Development Appropriations Subcommittee.

"I am hopeful that the Trump administration will show a willingness to engage Congress on meaningful infrastructure investment that finally matches their public rhetoric," Price said in a statement.

Trump promised to "build gleaming new roads, bridges, highways, railways, and waterways all across our land." He released a plan in February, but Democrats criticized it for allocating only $200 billion in federal money over 10 years — mostly to spur states, localities and the private sector to fund the balance of $1.5 trillion in investment.

Funding Source

There were a few committee hearings on the plan, but it stalled amid a backlash about a lack of federal investment and because it failed to specify a funding source, said Bud Wright, executive director of the American Association of State Highway and Transportation Officials.

Senate Democrats released a $1 trillion plan in March funded by rolling back tax cuts for the wealthy. But Republicans won't accept that, raising federal taxes has not proven feasible politically and more borrowing is unlikely with the ballooning federal deficit, Wright said.

"It's going to come down to the same question: Where is the money actually going to come from?" Wright said in an interview.

Trump surprised a group of lawmakers Feb. 14 by saying he would support a 25-cent-per-gallon increase in federal gasoline and diesel taxes — an idea also backed by the U.S. Chamber of Commerce and American Trucking Associations. But the president never endorsed the plan publicly, and prominent Republicans flatly rejected any tax increase.

The gas tax of 18.4 cents per gallon and diesel levy of 24.4 cents were last raised in 1993, even as many states — including those led by Republicans — have increased fuel levies. As a result of inflation, the federal tax provides just over half of its original value, according to government estimates.

Retiring Chairman

Republican Representative Bill Shuster of Pennsylvania, the retiring chairman of the House Transportation and Infrastructure Committee, released his own proposal July 23 to spur discussion about fixing infrastructure and shore up the Highway Trust Fund, which is projected to become insolvent by 2020.

His plan includes raising the federal gas tax by 15 cents a gallon over three years and the diesel tax by 20 cents, with a goal of replacing the fuel levies by 2028 with a per-mile-traveled fee or other sources of revenue.

If Republicans maintain control of the House, Representative Sam Graves of Missouri and Representative Jeff Denham of California are vying to take Shuster's place as committee chairmen. Both have endorsed the need for infrastructure projects in previous statements.

Political Blame

There's a question about whether Republicans will be willing to pass a major spending bill if they maintain control of the Senate as expected, but if Democrats take back the House, voters will be asking what results they produced beyond investigating Trump, said Rendell of Building America's Future.

Trump and Republicans also will have to answer in 2020 if they don't produce an infrastructure measure, he said.

"If we sent him an infrastructure bill that was a significant bill, I think he would sign it because he has talked about infrastructure ad nauseam but he hasn't done anything about it for two years," Rendell said.

The Association of Equipment Manufacturers, which represents companies including Caterpillar Inc., Volvo Construction Equipment Corp. and Link-Belt Cranes, has already launched a "Mission Not Accomplished" campaign reminding voters that Trump hasn't kept his promise so far.

Improving infrastructure historically has had bipartisan support, and that's needed today with the American Society of Civil Engineers estimating an additional $2 trillion is required by 2025, said Shailen Bhatt, president and chief executive officer of the Intelligent Transportation Society of America and a former state transportation director.

"It can't be a Republican wins and a Democrat loses or a Democrat wins and a Republican loses, because then Americans lose," Bhatt said in an interview."On infrastructure, that just can't happen.''

Bloomberg Politics

By Mark Niquette and Alan Levin

October 29, 2018, 1:00 AM PDT

Why a Democratic Wave Could Be Good for Muni Investors.

Muni investors should be rooting for a Blue Wave.

The midterm elections are around the corner, and the stakes are high. The market's consensus — as seen on prediction markets on Hypermind — is that the Republicans will keep the Senate, but lose the House to Democrats.

That might be good news for buyers of state and local debt, according to the muni research team at investment bank Barclays .

If Democrats gain control of one or both chambers, "we think that muni yields would likely decline slightly, outperforming Treasuries, as concerns about new tax reforms would be largely put to rest for now," Barclays researchers led by Mikhail Foux wrote in a note dated Oct. 23. A "Blue Wave" is their baseline scenario.

But the alternative — a "Red Wall," if Republicans keep control of both chambers — would send yields "significantly" higher, they wrote.

"Given that this outcome has largely not been priced in, we envision a rather dramatic move, with health-care credits likely underperforming. In essence, this would be a repeat of the late-2016 sell-off, but on a smaller scale."

That would likely result in an expansion of the president's policy agenda, including more restrictive moves in trade with China, Europe and other trading partners, as well as immigration at U.S. borders, they wrote. And Republicans may try for a second round of tax cuts, to push the buoyant economy beyond the 2020 presidential election. But, the researchers wrote, "the legislative path to pass another round of tax cuts could be tenuous."

With a wide band between those potential outcomes, they recommend easing up on munis going into next month, especially in health care, and hedging with Treasuries.

As for the various races for governor seats, the Barclays strategists see Democrats adding three, with eight others so far too close to call. But any effect will be minimal, they say: “Given that most states are in relatively good financial shape, we do not believe that most of these races will have any meaningful effect on credit spreads.”

General obligation bonds in Illinois and Connecticut “might have room to tighten,” they say.

With the third quarter’s strong economic growth boosting tax revenues, U.S. state budgets are actually in decent shape, according to a new report by S&P Global Ratings.Trade tensions with China won’t hurt the overall U.S. economy too much, but that’s not true for some states and regions, they said. S&P Global also says that it will be watching for a slowdown in housing permits.

“The positive tone should persist at least through the next six months-to-one year,” S&P Global Ratings analysts led by Gabriel Petek said in the report. But, they wrote, some of the gains, and the resulting increase in tax receipts, may be the product of a bunch of one offs that are not sustainable — like the federal tax cuts combined with higher federal spending. That effect will likely fade in the coming months, they said.

S&P’s economists revised their projection for real GDP growth in 2018, expecting a 2.9% increase instead of the 3% they forecast in June due to the trade dispute with China and the economic activity lost in the wake of Hurricane Florence. Hurricane Michael could weigh on GDP growth in the final quarter this year, they wrote.

S&P Global expects economic growth to slow to 2.3% in 2019 and 1.7% in 2020; as the expansion drags, a “renewed fiscal strain” will start to show across states.

“The currently more favorable macroeconomic backdrop presents a window of opportunity for state and local governments to consolidate,” according to S&P Global, “more than it does a new baseline.”

Barron’s

By Mary Childs

Oct. 31, 2018 12:08 p.m. ET

Quick Start Guide For S&P Global Ratings' Priority-Lien Criteria

To determine a priority-lien (PL) rating, our criteria incorporate three primary steps: Analysis of the revenue stream being pledged, expressed as the stand-alone credit profile (SACP); Analysis of the general creditworthiness of the entity pledging the revenue stream, expressed as the obligor’s creditworthiness (OC); and Assignment of the PL rating based on the relationship between the SACP and…

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Oct. 22, 2018

S&P U.S. Public Finance Criteria: Priority-Lien Tax Revenue Debt

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products to priority-lien tax revenue* debt issued by U.S. municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is typically limited. These criteria supersede "Special Tax Bonds", published June 13, 2007. All terms followed by an asterisk (*) are def…

Continue Reading

Oct. 22, 2018

S&P U.S. Public Finance Criteria Guidance: Priority-Lien Tax Revenue Debt

Specifically, this Guidance Document focuses on providing additional information on the following sections from the criteria: Overview And Scope Assigning the stand-alone credit profile (SACP) (specifically, Coverage and Revenue Volatility) Linking Priority-Lien Debt Ratings To The Obligor's Creditworthiness (specifically, Determining the obligated or related entity; Capping the Priority Lien Rati…

Continue Reading

Oct. 22, 2018

S&P RFC Process Summary: Priority-Lien Tax Revenue Debt

S&P Global Ratings would like to thank investors, issuers, intermediaries, and all other parties who provided feedback to its "Request For Comment: Priority-Lien Tax Revenue Debt" and "Macro-Level Volatility Assessments Assigned To Six Types Of Tax And Fees," both published Nov. 13, 2017. Following careful consideration of market feedback, we finalized and published our criteria titled "Priority-L…

Continue Reading

Oct. 22, 2018

Muni Bonds Look Good Despite Annual Autumn Slump.

- **"Muni performance has been nothing to write home about, but it's been better than just about every other fixed-income segment," said Tom Hession, managing partner at Riverbend Capital Advisors.**
- **The market has benefited from a reduced supply of bonds, largely as a result of tax reform passed last year.**
- **In high-tax states such as California and New York, the new $10,000 cap on the deductibility of state and local taxes has sent demand for tax-free muni-bond income soaring.**

It’s that time of year again for the municipal bond market.

The fall months are typically weak for muni bonds and although this year has generally bucked seasonal trends, it looks that way again this year.

“There’s been a lot of unevenness in a usually more predictable market,” said Peter Hayes, head of the Municipal Bonds Group at BlackRock. “However, October tends to be weak so we were cautious coming into September.”

True to form, muni bonds have been sliding. The Bloomberg Barclays Municipal Bond Index is down 1.43 percent since the end of August and now has a return of -1.11 percent for the year. That won’t help send your kids to college, but relatively speaking, it’s a pleasant surprise in an otherwise rough year for bond investors.

“Muni performance has been nothing to write home about, but it’s been better than just about every other fixed income segment,” said Tom Hession, managing partner at Riverbend Capital Advisors. Hession’s firm sub-advises separately managed accounts of muni bonds for wealthy clients.

In the rising interest rate environment, the muni index decline compares very well with U.S. Treasury bonds -2.12 percent and U.S. investment grade corporate bonds -3.1 percent, through Oct. 16. “Munis tend to do relatively well in a rising rate environment,” said Hayes, who credits their higher coupons and callability for insulating against rate increases. “They outperform when rates are rising and underperform when rates are falling.”

The current weakness, however, could extend for a while if interest rates resume their rise and market supply and demand factors become more negative.

So far this year, the market has benefited from a reduced supply of bonds, in large part, as a result of tax reform passed last year. Because of uncertainty over the tax-exempt status of muni bond income, as well as other potential rule changes in the market, issuers flooded the markets with bonds at the end of last year, pulling roughly $30 billion of issuance forward, according to analysts.

That led to one of the worst Januaries for the muni market on record (-1.18 percent). But it also cleared a lot of bonds from the pipeline that would have otherwise hit the market through this year.

The tax bill also disallowed the common practice of advance refunding, which enabled municipalities to refinance debt at lower rates. It accounted for about 15 percent of muni bond issuance in the market.

“The low supply of bonds has definitely helped the market this year,” said Brian Nick, chief investment strategist at Nuveen.

The current expectation that issuance is picking up, however, is now hurting it. With interest rates trending up, issuers may want to come to market before they rise much further. “We think supply will track up, but not as dramatically as it did at the end of last year,” said Hayes.

On the demand side of the equation, the uncertainty over tax reform appears essentially resolved. The demand for munis from the institutional side of the market — about 30 percent of the total — has fallen. The lowering of the corporate tax rate to 21 percent from 35 percent has reduced demand for tax-free income at banks and insurance companies, but the market has now largely adjusted, according to Hayes. “The insurance companies have done their reallocations,” he said. “Most of the selling occurred in the early part of the year and we haven’t seen much in the last few months.”

The lowering of marginal income tax rates also makes tax-free income relatively less valuable for individuals. However, the changes on individual rates are far smaller than on the corporate side and individuals continue to look to muni bonds for income.

Other tax rule changes may actually have boosted overall demand for tax-exempt income. In high-tax states such as California and New York, the new $10,000 cap on the deductibility of state and local taxes has sent demand for tax-free muni bond income soaring. The spreads on AA-rated California bonds with AAA muni bonds and U.S. Treasurys have fallen dramatically this year. “I think the tax bill was a net positive for the market,” suggested Nick. “Many other ways to avoid taxes were stripped away, so demand for tax-free income is now higher.”

The fundamentals underlying muni credit profiles are also improving thanks to the strong economy. Personal income tax revenues and property taxes are up 5 percent and 6.5 percent in the last year, according to Hession. Muni defaults have totaled less than $2 billion so far this year, with virtually all of that related to FirstEnergy Solutions, a power generating business of the Ohio-based utility that declared bankruptcy earlier this year.

“Muni issuers tightened their belts after 2008 and economic growth is now benefiting state and local governments,” said Hession. “The outlook for muni credit looks like it will stay positive for the foreseeable future.”

The more than $16 billion of asset flows into muni bond funds this year suggests retail investors are still keen on the market. Those flows, however, have recently hit a wall, with investors pulling a net $3 million from muni funds in September. Flows could fall further, said Hayes. “When the market turns negative, demand from retail investors often declines,” he said. “It will be interesting to see if that happens this time.”

Hayes thinks that the combination of higher rates and increasing supply of bonds could push yields higher by another 10 to 20 basis points, but he’ll be ready to lock in rates if that happens. With the muni duration curve much steeper than the Treasury curve, he currently favors a barbell investing strategy. He invests in 20-year-plus munis that are paying a significantly higher yield, and very short-term bonds of less than two years that he can rapidly redeploy at higher rates down the road. “The relative value on the front end of the curve is expensive and on the long end it’s cheap,” said Hayes.

With interest rates rising and worries about more supply of bonds coming to market, it could be a volatile finish to the year.

CNBC.com

by Andrew Osterland

23 Oct 2018

Prophet of Muni Market Doom Wasn’t Wrong - Just Early.

A false alarm may have lulled investors and pensioners into a false sense of security as conditions have worsened significantly

Eleven years ago next week, a then-obscure bank analyst made the call of a lifetime when she said

Citigroup would be brought low by bad mortgage loans. By the end of the day hundreds of billions of dollars in value had been lost in U.S. stocks. The bank's CEO would resign days later.

Maybe it was overconfidence, but when Meredith Whitney made her second big call three years later she violated the first rule of punditry—never mention a number and a date in the same sentence. Her prediction on "60 Minutes" that there would be "50 to 100 sizable defaults" on municipal bonds over the next year proved wrong. People in the municipal bond business, deluged by anxious clients, were merciless in their criticism of Ms. Whitney's prediction.

Since then a dramatic decline in the finances of state and local governments has made it increasingly likely that she will be remembered as right but early. Municipal bond investors should heed the warning.

Continue reading.

The Wall Street Journal

By Spencer Jakab

Updated Oct. 26, 2018 3:17 p.m. ET

Local Government Investment in Public Water and Sewer Hits a Record $123.7 Billion in 2016.

Long-term infrastructure investment commitment to clean water and sewer/stormwater management tops $1.99 Trillion from 1993 to 2016

Public spending on water and sewer/stormwater management continues to set new nominal dollar highs according to recently released local government Census data for 2016. Overall there was a 4 percent increase in spending from 2015 to 2016, and a 2 percent growth in revenues. Expenditures for water and sewer follow similar trajectories with some important distinctions, (Chart 1). For example, local governments consistently spend between $5 Billion to $15 Billion more on water than on sewer/stormwater management.

Read More

The United States Conference of Mayors

By Rich Anderson

Fitch Updates U.S. Public Finance Charter School Rating Criteria.

Fitch Ratings-New York-24 October 2018: Fitch Ratings has released an exposure draft detailing proposed changes to its rating criteria for U.S. Public Finance Charter Schools.

"The criteria revisions aim to communicate Fitch's credit evaluations more clearly and better express the characteristics that affect a credit's relative resilience through the business cycle. Fitch believes that this will facilitate a more forward-looking, predictable approach to ratings," said Amy

Laskey, Fitch Managing Director.

The proposed criteria revisions are expected to trigger downgrades among up to one half of the 15 charter schools rated by Fitch. These do not include charter schools whose debt repayment is supported by a state moral obligation; those ratings will continue to be based on the relevant state's credit quality. Fitch's small portfolio of charter school ratings is not representative of the overall charter school credit universe.

Proposed changes include:

–Introduction of three key rating factors: revenue defensibility, operating risk, and financial profile;
–Individual assessments for each key rating factor;
–Financial profile alignment with business profile in rating assessment;
–Incorporation of FAST – States and Locals, an issuer specific scenario analysis tool measuring the effect of a moderate economic downturn on revenues and financial profile.

Fitch explicitly does not weight the assessments of individual key rating factors in coming to an overall rating conclusion. The ratings are not formulaic or model driven; they require qualitative judgment to place metrics in an overall context for each issuer.

Fitch invites feedback from market participants at criteria.feedback@fitchratings.com during the comment period, which ends Dec. 1, 2018.

Fitch will host a teleconference on the proposed criteria changes on Nov. 8 at 2:00 p.m. Eastern Time. To register, visit
https://event.on24.com/wcc/r/1866694/596D9033DBA4A271EE6ADD55E1B734B7

For more information, the full special reports titled "Exposure Draft: U.S. Public Finance Charter School Rating Criteria" and "Proposed U.S. Public Finance Charter School Rating Criteria: FAQs" are available at www.fitchratings.com.

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Fitch Ratings: Aging Population an Adverse Tide Turn for U.S. States

Link to Fitch Ratings' Report(s): U.S. States and the Growth Implications of an Aging Population

Fitch Ratings-New York-24 October 2018: The United States population is aging at a rate that will hurt revenue growth for states over time, particularly for several states that will be "super aged" within a decade, according to a new Fitch Ratings report.

The U.S. population is projected to age considerably over the next 10 years, with the over-65 population in 17 states eclipsing 20% (or what the United Nations refers to as "super aged"). This is a somewhat surprising statistic considering that no state was deemed "super aged" as recently as two years ago. A closer look also shows that several other states will be within striking distance of "super aged" status by 2026.

This rapid increase in aging populations will affect the finances of state governments in two general ways, according to Fitch U.S. Public Finance Group Credit Officer Olu Sonola.

"First, the working-age population shrinks as the population ages, constraining economic and revenue growth," said Sonola. "Second, a rapidly aging demographic profile changes a state's expenditure profile as expenses related to healthcare and retirement cost grow."

Among the 17 states that will have "super aged" populations by 2026 are Connecticut, Michigan, Pennsylvania and West Virginia. Additionally, New York, New Jersey and Illinois are among some of the other states that will fall just short of "super aged" status less than a decade from now.

With several states facing declines in working age population in the coming years, improvements to labor utilization and productivity could help stem the prospect of falling revenue growth. "Economic growth prospects for many states with negative demographic trends will likely hinge on improvements to labor productivity," said Sonola.

Another interesting wildcard could be immigration. Net positive international migration will likely mitigate domestic out-migration in many states. However, a more restrictive national immigration policy environment would likely accelerate population and working-age population declines in states like New York, Illinois, New Jersey, Pennsylvania, Massachusetts and Rhode Island.

"U.S. States and the Growth Implications of an Aging Population" is available at www.fitchratings.com or by clicking on the above link.

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Citigroup, Barclays Warn of Muni Bond Selloff If GOP Wins Big.

- **But analysts see it unlikely Republicans will gain in election**
- **If they do, it could trigger repeat of post-Trump market rout**

The municipal-bond market has pre-election jitters.

That's understandable: President Donald Trump's surprise victory in 2016 drove state and local government debt to its biggest monthly loss since the 2008 credit crisis on speculation that his fiscal policies would fuel an increase in inflation. Both Barclays Plc and Citigroup Inc. strategists warned clients in notes this week that if Republicans buck forecasts and win big, it could cause another sell-off, just as the bond market is steadying from the one that erupted earlier this month.

Barclays strategists say that if the GOP maintains control of the House and Senate, yields could increase significantly in what could be "a rather dramatic move" due to the risk of lawmakers enacting more tax cuts. A Republican majority could be especially bad for debt issued by hospitals, given the potential for lawmakers to try to repeal the Affordable Care Act again, they said.

"In essence, this would be a repeat of the late-2016 sell-off, but on a smaller scale," wrote Barclays analysts led by Mikhail Foux.

After the 2016 election, state and local debt posted a loss of 3.7 percent in November, the biggest since September 2008, according to Bloomberg Barclays indexes. There hasn't been as bad a loss since.

Citigroup analysts led by Vikram Rai said most forecasters expect Democrats to win control of the House and Republicans to hold the Senate, a scenario that would pose no significant risks to municipal bonds given that the opposing sides would be unlikely to agree on big policy changes. Barclays said its baseline scenario is for a similar outcome, which it says would likely cause yields to decline slightly.

But Citigroup analysts said that if Republicans retain a "decent" majority in the House, that may lead investors to anticipate another round of tax cuts, which would diminish demand for tax-exempt bonds.

"That could spook investors into selling tax-exempts. And this kind of selling could not come at a worse time since the Treasury sell-off and the ensuing mutual fund outflows have already depressed annual returns," they wrote.

Representative Kevin Brady, the chairman of the House tax-writing committee, said Tuesday that Republicans will advance a 10-percent tax cut aimed at middle-income earners if they retain control. Changes to the tax code are viewed as a threat to the state and local government debt market because lower tax rates — such as the corporate rate cut last year — can translate into less demand for the tax-exempt income that the debt provides. There's also the risk that lawmakers could seek to tax income on municipal bonds to offset the cost of other cuts.

Some investors with election worries might be selling their holdings, given that mutual funds have seen cash pulled out for four weeks straight. Given the risk of an unexpected outcome on Nov. 6, Barclays said "it makes sense to lighten up" on state and local debt.

Bloomberg Markets

By Amanda Albright

October 24, 2018, 7:18 AM PDT

[One Investor Bets Big on Tiny Muni ETF Despite Market's Losses.]

- **Hartford ETF reaps record inflow after seeing little all year**
- **Other mutual funds, ETFs see outflows as returns stay negative**

At least one investor has high hopes for the muni bond market.

He or she purchased 650,000 shares of the Hartford Municipal Opportunities ETF worth $25.5 million earlier this week, causing the fund to see a record inflow. A week earlier, an investor bought 450,000 shares worth $17.6 million. That pushed up the fund's assets to $76.4 million.

It's notable because until October, the Hartford fund hadn't attracted any new cash, barring a $2 million inflow shortly after it launched in December 2017. And it's curious timing for a municipal-bond ETF to suddenly pull in funds: state and local debt has posted a 0.9 percent loss this year as interest rates head higher. Other big municipal-bond ETFs have seen record outflows during the market's rout this month, which has started to stabilize.

The Hartford Municipal Opportunities ETF is an actively-manged fund that invests in both investment-grade and high-yield municipals and seeks to provide a "long-term total return."

The fund's effective duration is just over five years and its top revenue bond holdings include transportation and health care credits, according to a June fact sheet. The fund, which was listed by Hartford Funds in late 2017 and is sub-advised by Wellington Management Company, is managed by Timothy Haney and Brad Libby.

Bloomberg Markets

By Amanda Albright

October 25, 2018, 6:25 AM PDT

— With assistance by Carolina Wilson

[Affordable For Now: Water And Sewer Rates At U.S. Municipal Utilities]

S&P Global Ratings maintains revenue debt ratings on 1,600 public water and wastewater utilities in the U.S. This includes multiple security types and issues but with the same obligor (e.g., Baltimore issues both water and wastewater revenue bonds that are separately secured by dedicated revenue streams). However, it excludes debt issued by wholesalers, as well as debt issued by state agencies to

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Oct. 24, 2018

Municipal Liability Cap and Insurance: Butler Snow

Although attempts have been made to expand the meaning of “legally entitled to recover” when the municipal statutory damages cap is involved, plaintiffs have not been successful in recovering beyond the statutory cap in Alabama.

In *State Farm Mutual Automobile Insurance Company v. Causey*, 509 F. Supp. 2d 1026 (M.D. Ala. 2007), State Farm filed a declaratory judgment action seeking the court to declare that it had no obligation or duty to pay uninsured/underinsured motorist benefits to the defendants as a result of an accident with a municipal employee. The central issue presented was whether an insured can recover uninsured/underinsured motorist benefits from her own UM/UIM carrier when the alleged tortfeasor is a municipality and enjoys the benefit of a statutory cap on damages.

In *Causey*, the defendants were involved in an automobile accident with a street sweeper operated by a municipal employee. The defendants alleged the operator of the street sweeper negligently and wantonly caused the automobile accident which injured the defendants. As a result of the accident, the municipality on behalf of itself and its employee paid its policy limits of $100,000 to the defendants.

State Farm argued it had no liability to the defendants for any judgment in excess of the $100,000 since the undisputed evidence showed that the tortfeasor was acting in the line and scope of his employment with the municipality at the time the accident occurred and the municipal damages cap found in Alabama Code §11-93-2 applied, as a matter of law, to municipal employees acting in the line and scope of their municipal employment.

The municipal damages cap set forth above was held constitutional by the Alabama Supreme Court in *Home Indemnity Co. v. Anders*, 459 So.2d 836, 841 (Ala. 1984). In *Causey*, the Court held that the defendants had already received what they were “legally entitled to recover” as a result of the accident and affirmed the judgment in favor of State Farm.

The same issue was presented in the case of *Kendall v. United Services Auto. Ass’n*, 23 So.3d 119 (Ala. 2009), where the meaning of the phrase “legally entitled to recover” was discussed. The Alabama Supreme Court, in discussing its prior decision in *Ex parte Carlton*, 867 So. 2d 332 (Ala. 2003), held that “[t]oday we return to the point from which this Court never should have departed – the language of the statute. The language of the uninsured-motorist statute is plain and unambiguous.” *Kendall* at 1112. In *Kendall*, the Alabama Supreme Court agreed with the holding in *Causey*, refused to expand the meaning of “legally entitled to recover” and affirmed the lower court’s ruling that the insured was not legally entitled to recover damages from the county beyond the statutory cap she already received through settlement, and, thus, was not entitled to UIM benefits.

With the decisions of *Causey* and *Kendall* controlling, the statutory cap on recovery is preserved.

September 26, 2018

Butler Snow LLP

The Big Five: Key Tax Credits and Public Incentives

When planning a new facility, accessing public incentives can help your company to leverage capital and receive a higher return of your investment.

When planning a transformative project, tax credits and incentives can go a long way toward boosting capital — especially when the project involves job creation or a major capital investment. While the Tax Cuts and Jobs Act of 2017 modified some longstanding programs, it also established the valuable new Opportunity Zones program. Other public incentive programs that may be applicable to your project include Property Assessed Clean Energy (PACE) loans, New Markets Tax Credits (NMTC), Historic Tax Credits (HTC), and Tax Increment Financing (TIF). What's the key to success? Investigating available incentives to find a good fit for you and your community and weighing your incentive options before making your location decision. In some cases, it even makes sense to modify a project to align with particular incentives that will make it more viable and result in a higher ROI.

Know Before You Go

The five most relevant public finance programs you should know about are Property Assessed Clean Energy (PACE) financing, Opportunity Zones, Historic Tax Credits, New Markets Tax Credits, and Tax Increment Financing. Following are updated details on each of these programs:

1. **PACE Financing.** More than 30 states and the District of Columbia have passed PACE-enabling legislation to provide low-cost loans for energy efficiency upgrades or installations repaid through special property tax assessments. Applicable to energy retrofits, renovation or new construction projects, PACE loans lower the cost of capital, cover up to 100 percent of the energy efficiency project costs, and are usually available with a 20-year fixed-rate and a high loan-to-value (LTV) ratio.
2. **Opportunity Zones.** As part of the Tax Cuts and Jobs Act, thousands of economically distressed communities across all 50 states, D.C., and U.S. territories were designated as Opportunity Zones. The Opportunity Zones program offers federal tax incentives for investing unrealized gains in Qualified Opportunity Funds, which are investment vehicles created specifically for this purpose. Benefits can include tax deferral, tax reduction, or even permanent tax exclusion.
3. **HTC Program.** The longstanding federal Historic Tax Credits program provides a 20 percent tax credit for certified rehabilitation of properties listed on the National Register of Historic Places. Modifications under the Tax Cuts and Jobs Act include spreading out the credit over five years and eliminating a 10 percent credit for old, but not certified-historic, buildings.
4. **NMTC Program.** The New Markets Tax Credit program is a 39% federal tax credit used to encourage investment in low-income census tracts. Competition for the credits is fierce. Project sponsors must demonstrate that their projects have a high level of community benefit, including job creation and retention, community services, and positive impact on the environment.
5. **Tax Increment Financing (TIF) Districts.** Designated by municipalities, TIF districts incentivize economic development and public improvement projects in blighted areas by providing some or all of the new tax revenue generated by the project to the developer as upfront capital or over time. It is important to note that the Tax Cuts and Jobs Act made upfront TIF

proceeds taxable income for private developers unless the new development will be owned by a government entity or was part of an approved master plan before the Act took effect. The change will significantly affect the viability of some projects and may require creative new approaches to incentive strategies by municipalities and developers.

Don’t let fear of government paperwork and compliance requirements keep you from considering public incentives. Many owners are pleasantly surprised to find that the requirements aren’t as onerous as perceived. As you home in on a particular site, a key negotiating tactic is to demonstrate that a particular incentive — or combination of incentives — is a key factor in choosing a location. Proving your commitment to improving the community can help land these incentives and lead you to realizing a higher ROI and more valuable project in the long run.

Editor’s Note: Area Development’s Indianapolis Consultants Forum featured a presentation on tax credits and incentives in the financing package by Brad Elmer, CFA, Managing Director at Baker Tilly Capital. The preceding were some key ideas from Elmer’s presentation and subsequent sit-down interview as compiled by Jennifer Harris, Area Development contributor, akrete communications.

Area Development

by Brad Elmer, CFA Managing Director, Baker Tilly Capital

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10 Years Later: After the Fall, Muni Insurers Rebuilding Market Relevance.

Municipal bond insurers were among the biggest casualties of the financial crisis.

With seven triple-A bond insurers and at least 10 players writing new business, up to 57% of newly issued municipal bonds carried insurance in the years before the global collapse swept away most of the insurers.

The municipal industry, which had relied on the triple-A wraps to reduce borrowing costs, was forced to adapt to a 64% decline in insurance in 2007-2008, as companies like Ambac, MBIA (MBI) and Financial Guarantee Insurance Co. were stripped of their gilded ratings, a consequence of ill-fated forays into risky mortgage backed securities and structured finance.

“It was a very scary time for everyone in the industry,” said Suzanne Shank, CEO of Siebert Cisneros Shank, an investment banking firm with a sizable municipal securities business.

Today, the ranks of municipal insurers have been reduced to two Double-A rated companies: Assured Guaranty (AGO), which purchased the former league leader Financial Security Assurance and continued selling in the muni market; and Build America Mutual, a mutually owned provider launched in 2012 by former officials of FSA. As of Sept. 30, the insurance penetration rate was 5.32% — about one-tenth the pre-crisis level.

The recovery of market share for municipal bond insurers has been hindered by two main factors: their lack of triple-A ratings, and the prolonged period of near-zero interest rates.

Some attempts to launch municipal-only insurance units stalled. At the time of the crisis DEPFA Bank proposed a muni-only insurer that would have only general obligation bonds and water and sewer bonds in its books. The bank never came up with a name for the insurer, and the initiative ended after indications that the unit wouldn’t garner a top-tier rating.

MBIA Inc. (MBI) started a municipal-only unit, National Public Finance Guarantee, in 2014. It stopped writing new insurance in 2017, after S&P Global Ratings lowered its financial strength rating to A from AA-minus and the long-term counterparty credit rating on MBIA (MBI) to BBB from A-minus.

“People tend to focus on the 50% par penetration reached during a few years before the financial crisis, but in addition to much higher interest rates, there were all those other AAA insurers,” said Robert Tucker, senior managing director of communications and investor relations for Assured. “Now, there are no AAA bond insurers, even though, in our case, our financial position is actually stronger, with lower insured exposure, lower leverage and higher claims-paying resources.”

The near demise of bond insurance hasn’t slowed down municipal issuance. Total long-term muni issuance has dipped below $300 billion only once since the crisis and that was in 2011, when muni issuance totaled $286.65 billion.

Shank said the muni market adapted to the decline in insurers.

“In light of what happened, the disclosure today is much better,” she said. “In a sense, the bond insurers were surveillance, and that role has expanded in the marketplace today. Not only doing research and analysis on credits prior to sales, but through the life of the bond.”

There are a few reasons insurance penetration is expected to rise in a higher interest rate environment. On the spread side, higher interest rates have historically been associated with wider absolute credit spreads, which will give insurers more capacity to charge premiums that deliver economic value to investors.

According to sources, that’s likely to be particularly pronounced in the higher-rated sectors, like AA-minus bonds, where there is a lot of volume where the industry’s double-A ratings can add value at the right price.

Another factor has to do with the buyer mix, as individual investors have been relatively less active in the market the last few years. Underwriting and trading desks say they are looking for at least 4% yields, and will get more excited at 5%. Because individuals benefit most from the guaranty (because they are not in position to do their own in-depth credit research), that shift should increase demand for insurance.

Rising interest rates and credit spreads will be more favorable for bond insurers, and now the Fed has bumped up the pace of rate increases since the tightening cycle began in late 2015. The Fed has raised the federal funds target rate six times since the start of 2017 and the market has baked in another hike for December of 2018. The Federal Open Market Committee’s Summary of Economic Projections suggests three increases will be needed in 2019, if economic data come in as projected.

Spreads between the S&P Municipal Bond Index and the S&P Municipal Bond Insurance Index show that the muni market places a higher value on insurance during uncertain times. Since 2008, the spread was the largest at around 30 basis points, in April of 2011, another difficult period for the markets. The spread between the two indexes was around 30 basis points once again in August and September of 2017, when the elimination of private activity bonds and advance refunding bonds were under consideration as part of tax reform. The spread for this year has declined from the high teens to closer to 10 basis points, as the market assigned less value to the wraps.

Stephen Winterstein, managing director of research and chief strategist at Wilmington Trust

Investment Advisors, said the public, advocacy groups, retail and professional market participants and advisors need to be educated about how bond insurance works.

“It did its job through the crisis and continues to do so today,” said Winterstein. Municipals were not the problem when insurers ran into trouble, he said. It was the riskier structured finance products such as residential mortgage backed securities and collateralized debt obligations, which offered higher rates of return, that were the main culprits. Municipals had, and still have a very low default rate, Winterstein said.

“There were some real problems in a specific sector of the monolines’ pre-crisis business,” Assured’s Tucker said. “For example, residential mortgages were much more highly correlated than was being assumed by many market participants, and they also became very illiquid when the market started to experience stress. Those problems were compounded by the fact that practically everyone in the financial industry — including the rating agencies — didn’t fully understand those risks and had too much faith in financial engineering.”

Tucker said that another major issue was a significant amount of fraud in that market. “Neither Assured Guaranty nor FSA insured those deals, as we did not see how those deals made sense, or how one could fully analyze them,” Tucker said.

Dominic Frederico, CEO of Assured, said one of the lessons of the financial crisis is how important it is to stick to disciplined underwriting criteria and business models, no matter what others are underwriting or other parties are encouraging the firm to do.

“It also reinforces the importance of having a diversified business model, limiting risk concentrations both by individual exposures and by sectors, and having large and strong capital resources, access to additional capital, if needed, and plenty of liquidity,” Frederico said.

Assured has paid about $9 billion in gross claims and continued to write new business all through the crisis and until now.

“The fact that our financial resources today, at over $12 billion in claims paying resources, are larger than before the crisis proves the strength of our company and its business model,” Frederico said.

Build America Mutual officials say the company’s mutual ownership structure provides a new way to insure municipal bonds, one that may help avoid the mistakes of the past.

“It was not exposure to municipal bond risks that led to downgrades in the bond insurance industry,” said Sean McCarthy, BAM’s chief executive. “It was the originally municipal-only companies that most aggressively diversified into structured finance and asset-backed securities who suffered severe losses that far exceeded their models and forced them out of business,”

McCarthy said it’s impossible and inappropriate to single out one industry sector or market participant as the root cause of the crisis.

“Across the market, there was an overreliance on models and not enough attention paid to conflicts between deal participants,” he said. “Looking back, it’s easier to recognize that not all structures merited a rating, and that it is impossible to align the interests of servicers, loan and mortgage originators, and investment bankers with those of the bond insurer.”

He said that going forward, insurers need to have a business model that works within their defined credit appetite.

“For BAM, that means we can support the municipal-only model because we have mutual owners whose top priority is protecting low-cost infrastructure financing and market access our guaranty provides, rather than realizing a high return on equity.”

Winterstein said if he buys insured bonds and something goes wrong — as happened when Puerto Rico defaulted — he will have an advocate at the bargaining table and the insurance company will have a good legal team looking out for his best interests. With uninsured bonds, he doesn’t “have that luxury,” he said.

Next: Local government isn’t all the way back

By Aaron Weitzman

BY SOURCEMEDIA | MUNICIPAL | 10/24/18 07:07 PM EDT

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10 Years Later: Less-Trusted Rating Agencies Maintain their Central Role

The municipal market remains skeptical of the rating agencies 10 years after their bad calls on mortgage securities contributed to the worst economic meltdown since the Great Depression.

While S&P Global Ratings, Moody’s Investors Service and Fitch Ratings have overhauled their practices since the Great Recession and still provide credit grades on about 92% of municipal bonds, market participants say they don’t rely on the agencies as they once did.

“The rating agencies are better than they were before the financial crisis,” said Marilyn Cohen, president of Envision Capital Management. “But we use the ratings as suggestions and not the Holy Grail.”

RATINGS AND THE FINANCIAL CRISIS

In the years leading up to the Great Recession, the ratings agencies issued profoundly wrong ratings that played a decisive role in creating the recession. Most famous among these were triple-A ratings of mortgage backed securities. When the economy turned sour, large portions of the securities went into default and the lax standards that were used in approving the underlying mortgages became apparent.

“Perhaps more than any other single event, the sudden mass downgrades of” ratings for residential mortgage backed securities and collateralized debt obligations “were the immediate trigger for the financial crisis,” an April 2011 Senate report on the origins of the crisis said.

The collapse of these securities had a cascading effect, leading to the collapse of the investment banks Bear Stearns and Lehman Brothers (LBM/2C09).

Lehman was rated A2 by Moody’s, A by S&P and A-plus by Fitch when it became the world’s biggest bankruptcy ever, in September 2008.

Most of the municipal bond insurers had expanded their offerings to include insuring the mortgage backed securities. The ratings agencies failed to foresee the risk and when the Great Recession hit, seven bond insurers that had pre-recession triple-A ratings collapsed.

Before the Great Recession, the ratings agencies gave the overwhelming majority of municipal issuers investment grades. For the most part, during the Great Recession the issuers showed themselves worthy of their rating. Since the recession, defaults among S&P Global Ratings-rated municipal bonds have been rare and default rates in the sector have remained extremely rare, said S&P spokeswoman April Kabahar.

However, in the last 10 years, in part because as a result of the economic crisis, several major obligors have defaulted. Five of the six biggest municipal bankruptcies in U.S. history have taken place since the Great Recession.

Moody's, S&P and Fitch downgraded Detroit to a speculative rating in January 2009, four and a half years before the city went into bankruptcy.

The agencies didn't give investors as much warning with the much bigger Puerto Rico bankruptcy. All three major agencies downgraded Puerto Rico's general obligation bonds to speculative grades in February 2014. In July 2016 the commonwealth government defaulted on those bonds. Since then most of the island's $74 billion of public sector debt has gone into default.

While Fitch defended its rating change, saying the timing "reflected Fitch's opinion of the issuers' ongoing credit deterioration," some analysts said the rating agencies' performance reinforced doubts.

"Puerto Rico was a travesty," Cohen said. "That was just a giant whitewash. And that is putting it nicely."

MUNICIPAL MARKET ATTITUDES

The agencies' misrating of mortgage backed securities, bond insurers, Puerto Rico and other entities fueled doubts that have lasted to this day.

"We believe the Great Recession has led to much greater skepticism about the rating agencies and greater scrutiny about their business model and rating process," said Triet Nguyen, managing partner at Axios Advisors. Nguyen said history has also made investors more wary of the bond insurers' ratings.

While PNC Municipal Strategist Tom Kozlik said that "generally the rating agencies do a good job" and that their ratings continue to command respect, others said the financial crisis changed that.

"Prior to the credit crisis, Merritt Research saw little interest for most subscribers to pay for general obligation credit data because of the sector's perceived low risk," said Richard Ciccarone, president of Merritt Research Services. "That's certainly not the case today."

LEARNING LESSONS

S&P and Fitch acknowledged learning lessons from the Great Recession and its subsequent impact, while Moody's declined to answer the questions.

"The vast majority of municipal ratings performed very well against the greatest stress any of us have seen in our lifetimes, which is the end-result we would expect from most municipalities to a stress of this magnitude," said Jessalynn Moro, head of U.S. public finance for Fitch Ratings.

"The lessons learned from the market crisis came from the few outliers that endured a Chapter 9 bankruptcy and bucked widely held municipal market conventional wisdom that GO bondholders are secured," Moro said. "Those lessons continue today as we're seeing with the evolution of structures like special revenues and statutory liens that attempt to separate bondholder repayment from operating risk gaining momentum."

S&P spokeswoman April Kabahar said S&P has also learned from the events of 10 years ago. In the aftermath of the downturn, "We've enhanced the integrity and validity of our rating methodologies and models. For example, we've established cross-functional teams of economists and analysts evaluating credit conditions around the world."

Justin Hoogendoorn, head of fixed-income strategy and analytics at Piper Jaffray (PJC), said that, in the aftermath of the Great Recession, "The ratings agencies were 'forced' to transition from a mix of qualitative and quantitative ratings to predominantly quantitative models, including the publishing of issuer scorecards following the Great Recession."

The Great Recession's impact on the rating agencies stemmed from more than just the agencies' own voluntary reforms. The U.S. government also responded to the Great Recession's impact in taking actions on the agencies. The government's main action was to pass the Wall Street Reform and Consumer Protection Act, better known as the Dodd-Frank Act, in 2010.

Parts of Dodd-Frank addressed municipal bond ratings. Some of its sections, but not all, have been carried out.

"One of Dodd-Frank's original intents was to increase transparency about the rating process and force regulated financial institutions to reduce their reliance on agency ratings," Nguyen said. "Banks in particular have been required to come up with their own internal risk assessment process to supplement agency ratings.

"Dodd Frank was also supposed to encourage greater competition by equalizing the playing field for smaller" ratings agency players, Nguyen continued. This hasn't happened for several reasons, he said.

"S&P Global Ratings takes its regulatory obligations across our global operations very seriously," Kabahar, the spokeswoman, said.

Other parts of Dodd-Frank Act relevant to munis haven't been carried out. The Dodd-Frank law required the Securities and Exchange Commission to create a rule to make the ratings agencies liable for their ratings the same way accounting firms or security analysts are legally liable for their reports. The commission hasn't done this yet.

"This requirement was misguided, in our opinion," Nguyen said. "Agency ratings should be recognized for what they are, just an investment opinion, hopefully an informed one."

The Dodd-Frank law also required the SEC to recommend an alternative to the "issuer pays" business model for the rating agencies, which observers have said provides an incentive to the agencies to grant high ratings. If the commission couldn't come up with a superior model, it required the commission to create a board to randomly assign credit rating assignments among the rating agencies. It hasn't done either of these things.

The SEC held a roundtable discussion in May 2013 on this general topic, but it hasn't taken action on the issues the panel raised.

"Having the issuer pay for the rating remains a fundamental flaw in the rating agency business model, as it creates a built-in conflict of interest," Nguyen said. "However, as many of the recent upstarts found out, getting the buy side to pay for ratings is also difficult."

Finally, Dodd-Frank said that a rule should go into effect requiring rating agencies to adopt procedures designed so credit ratings weigh default risk “in a manner that is consistent” for all rated obligors and securities.

The SEC adopted Rule 17g-8(b) on Aug. 27, 2014, that essentially required this.

From 2010 to 2014 both Moody’s (MCO) and S&P engaged in recalibrations or applied new criteria to U.S. public finance, leading to broadly higher ratings for munis connected with these actions. On average the changes were subtle.

S&P’s changes in 2013 and 2014 to the local government rating criteria led to an average increase in ratings of about 0.1 notch across all municipal credits.

In 2010 Moody’s (MCO) recalibrated some of its municipal issuer ratings to address the category’s comparative lack of risk at different rating levels. In categories closest to government, like general obligation and public water and sewer utility bonds, it raised ratings about one notch in the Aa category, two in the A category, and about three in the Baa category. Speculative grade ratings were left unchanged. For non-utility enterprise, public university, mass transit and a few other categories, Moody’s (MCO) raised the ratings by one notch around the Aa and A categories. It left ratings unchanged for several other categories like nonprofits and public electric power utility bonds.

Both agencies’ upgrade movement took place within a stronger tide of downgrades.

If the ratings agencies were to use historical defaults as a guide, in order to make the ratings denote equal risk in munis as in corporate bonds, all ratings of BBB-minus or above would have to be converted to AAA. Speculative grade municipal bonds would also have to be drastically upgraded. This would leave the municipal ratings with little differentiation and thus little value for those focusing on munis.

While the SEC hasn’t enforced the measure yet with regard to munis, on Aug. 28 the commission did find that Moody’s had broken the SEC rule with regards to a different financial instrument, combination notes, which are collateralized loan obligations backed by corporate loans.

The SEC ordered Moody’s to pay a $1.25 million fine and to “complete a comprehensive review of its policies, procedures, and internal controls that relate to the findings in this order in consultation with the Office of Credit Ratings” within 180 days. It also ordered the ratings agency to submit a report within 240 days describing its new policies for adhering to the SEC rule.

A Moody’s (MCO) spokesman said: “We are pleased to have resolved these legacy matters, which reach back to 2010. Moody’s Investors Service regularly reviews and refines its policies and procedures and is committed to maintaining strong controls around models used in the rating process.”

EVALUATING CREDIT TODAY

The Great Recession led market participants to think about issuer credit differently. “The meltdown of monoline insurers resulting from losses in the subprime mortgage backed securities arena forced investors to look harder at the underlying credit of a municipality leading up to the crisis,” said Justin Hoogendorn, head of fixed income strategy at Piper Jaffray (PJC).

“One tendency when looking at these separate Great Recession events was to describe them, at the time, as ‘idiosyncratic,’ ” said Douglas Benton, who was an analyst at Moody’s at the time and is now municipal credit manager for Cavanal Hill Investment Management. “However, an idiosyncratic list is an oxymoron. I believe we learned a lot about contagion risk that we as market participants hadn't fully appreciated."

The financial crisis and municipal bankruptcies in Vallejo, California and Detroit prompted investors to undertake more credit analysis themselves, said Michael Zezas, Morgan Stanley's (MS) chief U.S. public policy strategist and municipal strategist. "Once the bond insurers lost their high ratings and reminders that GOs could default started to pile up, it became clear that munis had credit risk that needed to be measured by the security holder, rather than simply rely on a third party."

Muni investors will continue to do more credit research than they did before the Financial Crisis, Zezas said. However, "for better or worse, ratings will be a common denominator for many investors trying to measure risk in a market with too many securities to follow."

Richard Williamson contributed to this story.

Next: After the fall, remaining insurers fight for relevance

By Robert Slavin

BY SOURCEMEDIA | MUNICIPAL | 10/23/18 07:07 PM EDT

Higher Revenues, Restrained Spending Boost U.S. States' Credit Quality - Conning

NEW YORK (Reuters) – The credit quality of U.S. states is improving, with revenue growth and spending moderation helping to halt a downward trend, according to a report to be released later on Tuesday.

States' revenue growth is higher than national economic growth in current dollars, the bi-annual report from global investment management firm Conning Inc found.

The boost in credit quality to "stable" is Conning's first higher outlook, up from "declined," on states in two and a half years. The firm manages more than $9 billion of municipal bonds in client portfolios.

"There's no reason to believe that this shouldn't continue for a while," Paul Mansour, head of Conning's municipal credit research, told Reuters.

Understanding credit trends can help investors determine how to buy and price bonds and businesses decide where to locate.

States struggled after the 2007-2009 recession, some cutting spending because businesses closed and residents lost jobs or earned less and therefore paid less in taxes.

Economies have improved since then. In late 2017, Moody's Investors Service had a stable outlook for U.S. states because of modest, continued revenue growth.

Fitch Ratings also had a stable outlook, sounding a note of caution about uncertainty over federal tax policy and politics.

And while equities markets have taken a beating lately, that is not likely to be reflected in state pensions' funded ratios because of a lag in reporting. Most of them will report later this year on fiscal 2018 results through June 30.

State revenues grew 7.4 percent during the 12 months that ended June 30, to $1.03 trillion, Conning's report noted.

Strong consumer confidence manifested in sales tax growth as personal incomes rose. States are also exercising caution on both debt issuance and expenditures, Mansour said.

Many states have used their revenue surges to bolster rainy day funds, even Connecticut. Previously among Conning's five lowest rated states, Connecticut's rainy day replenishment helped it rise to the 44th spot, as did the weakening of some other states.

Mississippi, Louisiana and Kentucky are Conning's three lowest ranked states, with Colorado, Idaho and Utah ranked highest.

"Economic growth throughout the country has lifted all boats. The raw scores have all improved. Home prices increased in all states," he said. "But there are some laggards."

Illinois and New Jersey continue to lag behind. Both are ranked in the bottom 10 states, with high debt levels, low reserves and slow growth compared to others, leaving them more vulnerable in any future recession, he said.

By Hilary Russ

BY REUTERS | MUNICIPAL | 10:52 AM EDT

(Reporting by Hilary Russ; editing by Clive McKeef)

New $1M Water Utilities Workforce Development Grants.

About 1/3 of the water utilities workforce is eligible to retire in the next decade. EPA and U.S. Army Corp of Engineers will establish a workforce development grant for the sector.

SAN FRANCISCO — Mayor London Breed, the San Francisco Public Utilities Commission (SFPUC) and its partners announced the establishment of a federal grant program to fund training and career development for the water utilities workforce.

More than 30 percent of the nation's water and wastewater workers are eligible to retire in the next five to 10 years, making this grant program a vital opportunity to train the next generation of industry employees.

Included in the America's Water Infrastructure Act, the $1 million per year competitive grant program was championed by the SFPUC and its partner utilities in the Water Agency Leaders Alliance (WALA), the National League of Cities (NLC) and the National Association of Clean Water Agencies (NACWA), among other national organizations.

The original legislation was sponsored by U.S. Senators Cory Booker of New Jersey and Shelley Moore Capito of West Virginia. The bill authorizes the U.S. Environmental Protection Agency and the United States Army Corps to establish the competitive water utilities workforce development grant, according to Booker's website.

Continue reading.

EfficientGov.com

by EfficientGov Staff

October 24, 2018

The Rise of Zombie Governments.

Just in time for Halloween, Truth In Accounting has updated its Zombie Index for state governments.

TIA's Bill Bergman explains what the Zombie Index is and why ranking at the top of the list is not a good thing for the residents of the states that do:

> This index is inspired by the work of Edward Kane, Professor of finance at Boston College. Kane wrote books warning about the developing crisis in the deposit insurance system in the late 1980s. Kane coined the term "zombie bank," referring to banks and thrifts that were effectively insolvent but allowed to remain open via untruthful accounting and regulatory forbearance.
>
> Kane called them "zombies" because they were really dead but allowed to walk among the living, and false accounting delayed loss recognition. Zombies had incentives to take large risks to try, in Kane's words, to "gamble for resurrection" – especially considering moral hazard generated by expectations that taxpayers would get the downside of the gambles. These incentives, in Kane's view, amplified the cost of the savings and loan crisis for taxpayers.

Becoming a zombie is bad for a bank, but at least the damage is contained to that private institution and its customers when it finally goes under. For a government, transforming into a zombie institution is exponentially worse, because the damage from the fallout when the Ponzi-like schemes of the politicians seeking to keep the state government running while hiding how bad its fiscal condition has become hits everybody when their financial deterioration can no longer be hidden.

Bergman identifies the states that have become the most zombie-like and what they could do to reverse their zombification:

> The biggest 'Zombies?' New Jersey, Massachusetts, New Mexico, Connecticut, and Illinois. Taxpayers and citizens in those states could benefit from more oversight of risk exposure in investments backing retirement funds.

The primary way that state governments hide the full extent of their liabilities is by omitting their pension obligations from their financial statements, where the states in the worst shape have an extended history of offering lavish pension benefits for public employees while failing to adequately fund them, counting on investment returns to carry the load of making good on the obligation.

Consequently, the worst-run governments turn to riskier and riskier investment schemes to try to make up the difference, which all too often turn into even bigger problems when they can't deliver the high returns they were counting upon. When they eventually go bust, as happened in Dallas, Texas just last year, essential government services like trash pickup appears to be suffering because the city's money troubles meant it couldn't buy enough new garbage trucks to replace aging ones.

On the plus side, reforms that Dallas has made to fix its public pension disaster appear to be working, so it is possible for a fiscally strapped government to repair the damage.

The real question for zombie government politicians is why wait until a crisis has forced the issue to put themselves onto a fiscally sustainable path?

The Beacon

by Craig Eyermann | Monday October 29, 2018 12:10 PM PDT

Craig Eyermann is a Research Fellow at the Independent Institute and the creator of the Government Cost Calculator at MyGovCost.org.

U.S. Fund Investors Pull Most Cash from Bonds since February -ICI

NEW YORK, Oct 17 (Reuters) – U.S. fund investors dumped bonds during a market rout in the latest week, at the fastest pace since February, Investment Company Institute (ICI) data showed on Wednesday.

More than $7.1 billion dropped out of U.S.-based bond mutual funds and exchange-traded funds (ETFs) during the seven days ended Oct. 10 as a debt market selloff pushed yields to seven-year highs. Nearly $1.7 billion flowed out of municipal bonds alone, the most cash pulled since the end of 2016.

The week's withdrawals were the largest for bond funds since early February, a rout sparked by similar inflation and rate concerns.

Overall, bond funds have been a popular bet this year, taking in nearly $133 billion, according to the research service Lipper, as investors took advantage of higher yields but were skittish that economic growth could peak with the Federal Reserve raising U.S. interest rates to head off inflation.

Within stocks, fund investors shifted money abroad for a second straight week as the S&P 500 benchmark sagged 4 percent. Domestic equity fund withdrawals totaled $3 billion, while their counterparts invested abroad gathered $502 million despite the market swings.

The following table shows estimated ICI flows for mutual funds and ETFs (all figures in millions of dollars):

10/10 10/3 9/26 9/19 9/12/2018
Equity -2,542 -4,282 -1,182 10,193 -3,371
Domestic -3,044 -4,806 930 10,544 -3,829
World 502 524 -2,112 -351 458
Hybrid -1,812 -2,099 -1,768 -1,299 -1,673
Bond -7,137 6,497 1,697 4,348 7,190
Taxable -5,484 6,499 2,083 4,231 7,160

Municipal -1,653 -2 -385 116 30
Commodity 138 -188 253 -91 -57
Total -11,353 -72 -1,000 13,151 2,089

(Reporting by Trevor Hunnicutt; Editing by David Gregorio)

Water Bill Ready for President's Signature.

The U.S. Senate passed a comprehensive water infrastructure package Oct. 10 to authorize the Water Resources Development Act (WRDA) by a vote of 99-1. The NACo-supported, bipartisan legislation now heads to the president's desk for his signature. This is the third WRDA bill passed in the past six years, moving WRDA back to a two-year authorization cycle.

The bill, America's Water Infrastructure Act of 2018 (S. 3021), was pieced together from a previously passed House WRDA package (H.R. 8) and a Senate WRDA bill (S. 2800). S. 2800 was unable to move independently through the Senate due to a hold by Sen. Richard Burr (R-N.C.) on an unrelated issue — reauthorization of the Land and Water Conservation Fund, which expired at the end of September. As a workaround, committee staff on both sides of the aisle negotiated a new bipartisan bill which was passed by the U.S. House of Representatives last month.

Learn More

- Read the bill
- Read the section-by-section summary
- NACo's letter of support for WRDA 2018

The compromise version would authorize a wide variety of water resource projects and policies administered by the U.S. Army Corps of Engineers (Army Corps) for navigation, flood control, hydropower, recreation, ports, harbors, inland waterways, water supply and emergency management. As major owners and operators of much of this infrastructure, counties are directly impacted by the policies and projects authorized in WRDA.

Most notably for counties, the WRDA legislation includes numerous provisions that would require the Army Corps to consult with impacted stakeholders, including local governments. The bill would also authorize $6.1 billion for 12 Army Corps projects and 65 feasibility studies for potential projects. It also includes $4.4 billion for the U.S. Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund program, which provides funds to states and utilities to improve drinking water infrastructure.

Other provisions of interest to counties include the following:

Requiring the Army Corps to develop a process to consult with stakeholders, including states and local governments, on future and pending WRDA projects, annual district budgets, deauthorized projects and guidance documents.
Authorizing study of the existing cost-benefit analyses used by the Army Corps and the White House Office of Management and Budget to determine which water resource projects are submitted to Congress for WRDA authorization.
Allowing communities to work with the Army Corps on decertified levees. The bill would allow the Army Corps to provide technical assistance, on a reimbursable basis, to local governments that own levees not accredited by the Federal Emergency Management Agency. Decertified levees lead to

higher National Flood Insurance Program costs for homeowners. This provision would authorize the Army Corps to identify barriers to certification.
Increasing the focus on natural and nature-based features. For projects in an aquatic ecosystem or estuary, the Army Corps could consider and include natural and nature-based features into projects.
Increasing the focus on renewable energy projects. The bill would require the Army Corps to identify dams that can be used for hydropower and ports that can be used for wind energy. This would increase the use of renewable energy nationwide.
Requiring drinking water systems with more than 3,300 users to undertake risk assessment and emergency response plans to assess the risk to and resilience of its system from both natural and manmade hazards.

Absent from the legislation are provisions addressing the Harbor Maintenance Trust Fund (HMTF) and EPA's Integrated Planning (IP) Framework, which NACo had advocated. HMTF is a tax levied against importers and domestic shippers using ports and harbors in coastal and Great Lakes areas. Even though the HMTF has a large surplus, only a portion of its total is appropriated by Congress every year for operations and maintenance in the nation's harbors. The IP Framework, on the other hand, was designed to help communities struggling to comply with tighter Clean Water Act (CWA) requirements. IP would help communities prioritize CWA investments, while meeting CWA mandates and environmental goals. Congressional leaders have indicated a willingness to continue to work on HMTF and IP moving forward, separate from the WRDA 2018 bill.

WRDA legislation is historically passed every two years. However, in recent years, Congress has only been able to enact three WRDA bills: in 2007, 2014 and 2016. WRDA currently has a backlog of nearly $100 billion worth of projects that have been authorized but have not yet received appropriations. The current WRDA legislation would be added to the list of projects awaiting congressional appropriations. NACo is encouraged by congressional efforts to move WRDA back to a two-year authorization cycle.

National Association of Counties

By Julie Ufner | Oct. 15, 2018

How Climate Change Threatens to Leave Water Bonds High and Dry.

Hurricane Florence caused record flooding at water and wastewater plants in North Carolina. Saltwater intrusion from rising sea levels is wreaking havoc on Florida's water supplies. The nearly two decades of drought afflicting the Colorado River Basin will soon require Southern California to cut its draw from the river by as much as 8%.

Climate resiliency is becoming an increasingly material issue for utilities that manage water infrastructure and investors who buy the bonds to finance these assets. As climate risks rise, utilities and their bond buyers must address growing questions about the long-term resilience of existing and planned water infrastructure, to prevent these investments being left high and dry.

Last fall, Moody's warned New Orleans, Miami and other Gulf Coast cities to prepare for climate impacts or risk a downgrade on their bond ratings. In July, a University of Pennsylvania study warned of broader credit rating downgrades for all coastal communities that do not manage flooding and rising sea level risks.

"What are we going to do when sea level rise is constantly battering cities? Declare a chronic emergency? We're talking about hundreds if not thousands of cities at risk," said UPENN's John Miller, who wrote the "Credit Downgrade Threat" report.

These actions linking credit worthiness to climate resiliency are an important wake up call to water utilities that they must prepare for climate change.

And momentum is clearly growing. Among the more recent breakthroughs is new guidance issued this spring by the National Federation of Municipal Analysts (NFMA) regarding utility disclosures. The guidance asks for stronger disclosure on potential climate impacts to physical assets, water supplies and revenue streams. It also asks utilities to share more about their plans to protect critical water sources as well as planned conservation measures to ensure water availability.

The NFMA's *Recommended Best Practices in Disclosure for Water and Sewer Transactions* guidance follows in the wake of an evaluation tool Ceres has developed to help bond investors assess the resiliency of water utility-related investments. The *Water Risk Framework for Municipal Water and Wastewater* is part of a new open-source water risk toolkit created in collaboration with a group of over 40 asset managers and owners.

Another development that will shape the future of the municipal water bond market is the finalization of new water infrastructure criteria for green bonds. The new standard, which use specific scoring criteria to rank water projects on climate adaptation and environmental impacts, come as the green bond market is taking off globally, hitting a record $162 billion in 2017. Several utilities have already issued $1.5 billion of green water bonds, including San Francisco, Washington, D.C., and Cape Town, South Africa.

Still another development is a recent change by the Governmental Accounting Standards Board to its guidance for bond financing for distributed infrastructure investments. The clarification makes clear that green roofs, smart meters, water efficient devices and other water-saving measures are assets that can be capitalized and debt-financed by water utilities. Having this financing flexibility will make it easier for utilities to deploy these types of assets at far greater scale.

The bottom-line takeaway should be clear: as climate impacts create bigger challenges for the water sector, it is incumbent on bond investors to understand these risks — and for utilities to disclose and plan for them.

By Brooke Barton

BY SOURCEMEDIA | MUNICIPAL | 10/16/18 07:06 PM EDT

Fitch Ratings: U.S. Transportation Growth Outweighs Rate Hikes

Fitch Ratings-New York-18 October 2018: All three major U.S. transportation segments are looking at continued healthy growth in the coming months even with the prospect of further interest rate hikes, according to Fitch Ratings in its latest annual report.

Airports, toll roads and ports are all facing potential increases in borrowing costs should the Federal Reserve continue to increase interest rates (three increases this year to date). That, coupled with increasing capital improvement spending needs, has the potential to slow growth. That said, 'the transportation sector's high ratings, along with high rate of fixed-rate debt, should limit the effects of potential interest rate escalation,' said Fitch Director Stacey Mawson. This comes as all three segments continue to see healthy growth that is outpacing that of U.S. GDP so far this year. 'As the economy continues to expand, growth is felt across transportation sectors, although higher fuel prices are muting some of that affect,' said Mawson.

Enplanements for U.S. airports nearly doubled yoy, up a healthy 5% for the first six months of 2018 compared with 2.6% growth during the same period last year. Fitch expects a similar rate of growth for second-half 2018, with medium and small hubs having the potential to outperform. Strong medium and small hub performers include Rhode Island, San Jose, Cincinnati, Albuquerque and Burbank, while Ft. Lauderdale, San Diego, Tampa and Orlando have been leading the pack for large-hub airports.

Growth among U.S. ports has been solid through the first six months of this year (4.8%), though lower as compared with the robust performance seen in the first six months of 2017 (6.9%), though volume is still ahead of real U.S. GDP growth. There may be some more immediate volume shifts between ports with trade agreements still being renegotiated and steep tariffs imposed. Over time, however, any initial move in volume should level off.

Traffic and revenue growth for toll roads will stay on an upward trajectory. Facilities in the Southeast and Southwest recovered rather quickly following hurricane-related travel interruptions in the latter half of 2017 with year-to-date 2018 traffic growth averaging 5.0% and 3.8% respectively, easily ahead of toll roads throughout Northeast (1.5%). More people moving to the Southeast and Southwest will add to toll road traffic and revenue over time. As in past years, one factor that could temper growth for toll roads is a material increase in gas prices.

Fitch's 'U.S. Transportation Trends – Fall 2018' report is available at 'www.fitchratings.com'

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Why the Muni-Bond Market Cares About the Midterms.

- **Infrastructure bill, return of refinancings a possibility**
- **But gridlock could return in politically divided House, Senate**

With Democrats hoping for a wave election next month that would roll back Republicans' power in Congress, analysts are gauging how the return of a divided government — or a narrower Republican margin — could ripple through various corners of Wall Street. Among them is the $3.9 trillion state and local government bond market, a crucial niche of American finance that could be affected by tax legislation, a big infrastructure buildup or the collateral damage a surging federal budget deficit may have on the billions of dollars of aid that states receive each year.

Below are the things to watch:

Infrastructure

President Donald Trump campaigned on a pledge to pump more federal money into infrastructure like roads, bridges and airports. Yet his plan — which proposed about $200 billion over a decade to kick-start private and local-government investments — went nowhere, even with his fellow Republicans in charge of the House and Senate.

But infrastructure is one area where the partisan divide may be bridgeable. Former White House economic adviser Gary Cohn last month predicted that Trump would likely sign a Democrat-backed plan, even if it was costlier than the one he proposed. The Democrats earlier this year unveiled a $1 trillion infrastructure program, paid for in part by higher taxes on the top earners, that would provide big grants to state and local governments, as well as create new subsidized securities similar to the Build America Bonds that were issued after the recession. Whether Republicans would get on board is uncertain.

Matt Fabian, partner at Municipal Market Analytics, wagers there's a more than 50 percent chance of an infrastructure bill passing the House if Democrats take control. Even so, it could easily die in a Republican Senate, given that a politically divided Congress is historically prone to gridlock.

"If you couldn't get something done with control of both houses of Congress and the executive, it's going to be difficult to get it done with a divided Congress," said Ian Rogow, a municipal strategist at Bank of America Merrill Lynch.

Return of Refinancing

A major surprise of last year's tax-cut law was that it did away with subsidies for municipal debt issued in so-called advance refundings, a tactic used by state and local governments to refinance bonds before they can be called back from investors. That did little to cover the cost — saving the government only about $17 billion over a decade — but it's had a big impact on the muni-bond market, where new sales slipped this year. While that's arguably been good for bondholders, with the drop off helping the market outperform during this year's downturn, it means states and cities won't be able to profit much the next time interest rates fall.

Emily Swenson Brock, director of the Federal Liaison Center at the Government Finance Officers Association, and Beth Pearce, the Vermont treasurer and president of the National Association of State Treasurers, said restoring the subsidies is something their groups will lobby for in the next Congress. A bill introduced in February to do that has made little headway, though it has support from both Democrats and Republicans.

Tax-Exemption
The tax exemption that investors receive from payments on state and local bonds has long been seen as a potential target for a budget-cutting Congress. Some Republicans have proposed doing away with it outright, while former President Barack Obama wanted to roll it back for the highest earners. The exemption, however, evaded the chopping block during last year's big tax cut.

Citigroup Inc. analysts say that even if Congress musters the bipartisan support to enact a follow up to last year's cut, the tax-exemption is unlikely to be at risk. However, the bank said lawmakers could roll back the subsidies for new private activity bonds — or those sold on behalf of qualifying projects for businesses. That would sharply reduce the supply of new tax-exempt debt, potentially making it more valuable, since the securities account for about 25 percent of the market, by Citigroup's estimate.

Federal Deficit
A potential squeeze at the federal level could affect states if it results in a pressure to cut funding for education, health-care and other programs. The federal deficit swelled 17 percent to $779 billion in Trump's first full fiscal year in office. The Congressional Budget Office, a non-partisan congressional research body, has estimated the shortfall will top $1 trillion in 2020. That will likely embolden Republicans to push for deeper cutbacks that could roll downhill, or undermine a push for new spending on infrastructure.

"Federal spending has to come down or taxes have to come up and either way it's a threat to state and local economics," Fabian said.

Bloomberg Markets

By Michelle Kaske

October 15, 2018, 8:15 AM PDT Updated on October 15, 2018, 12:09 PM PDT

— With assistance by Danielle Moran, and Amanda Albright

How Wall Street Drove Public Pensions Into Crisis and Pocketed Billions in Fees.

Public Pensions for Sale – Part 1

Public pensions squander tens of billions of dollars each year on risky, poor-performing alternative investments like hedge funds.

Continue reading.

The Intercept

by Gary Rivlin

October 20, 2018

How to Evaluate the Strength and Performance of Bond Insurers.

The last time a bond insurer was rated AAA was in 2010 when Assured Guaranty was downgraded by S&P following the financial crisis of 2008. Active bond insurers today are not rated AAA but have dramatically improved their capital adequacy and underwriting practices.

This article addresses how to evaluate the financial strength and performance of bond insurers so you can decide if the benefits of their financial guarantees are worth accepting the lower yield of insured bonds.

Continue reading.

municipalbonds.com

Joshua Hudson

Oct 17, 2018

Freddie Mac Introduces Finance Mechanism to Mitigate Construction-Loan Risk for Workforce Housing Developers.

New non-LIHTC Forward Commitment Program is part of a coordinated delivery of new products intended to innovate workforce housing finance and spur investment.

Call it the chocolate float.

When CBRE Affordable Housing announced in July a $26.7 million forward commitment from Freddie Mac to help finance the mixed-income, adaptive reuse of the Lowney Chocolate Factory in Mansfield, Mass., not much was broadcast about the financing beyond term-sheet basics.

At the time, the 10-year fixed-rate loan (which included two years of interest-only payments) was just part of a larger capital stack that included EB-5 program equity and commitments from the National Park Service, the Massachusetts Historical Commission, the MassHousing Workforce Fund, and construction lender Citizens Bank.

As it turns out, Freddie Mac was test-driving the viability of a new financing vehicle targeting workforce housing developers and modeled after similar programs already proven successful within the low income housing tax credit (LIHTC) arena. “When we launch any new products, we typically have already done a deal or two to make sure what we’ve come up with works successfully,” explains Freddie Mac vice president of targeted affordable sales and investments David Leopold. “Backing up further, we try to make sure any offering isn’t just our own thinking but addresses real gaps in the market. When we hear about good ideas or needs not yet met, that’s when we engage.”

Targeting Higher AMIs

Officially rolled out in September, Freddie Mac’s Non-LIHTC Forward Commitment program provides unfunded forward commitments for affordable housing developed by nonprofits as well as subsidized, rent-restricted affordable housing developed by for-profit developers for new multifamily construction or substantial rehabilitation. Specifically, Freddie underwrites and commits to making permanent mortgage loans on affordable rental housing projects prior to construction, offering developers a unique tool to manage the interest-rate exposure from construction lending, even for properties not funded with tax credits.

“Our goal is to provide liquidity to the whole market from a product-development standpoint,” says Leopold. “The need for non-LIHTC forwards has been growing, and the market evolutions that have made it acute include the increased efforts by more states and local jurisdictions to create new ways to subsidize affordable housing targeted to higher area median incomes (AMIs), so [as to provide] more workforce housing in comparison to standard LIHTC-driven affordable housing.”

While Freddie Mac non-LIHTC forwards are available to nonprofit affordable housing developers that commit all units to either workforce or affordable housing rent levels as defined by the Federal Housing Finance Agency (FHFA), the program is also open to for-profit developers who are willing to cap 80% of unit rents at 100% to 150% of the AMI (depending on the market), with another 10% of units subject to FHFA rules for uncapped volume and the remaining 10% of units open to market-rate rents.

The idea, Leopold says, is to provide loan mechanisms to help developers mitigate construction-loan interest-rate risk and variability and offer additional liquidity to maximize the value of state and local workforce housing subsidies. “More and more programs are expanding into workforce housing,” Leopold says. “There’s strong interest on the borrower side that corresponds with local and state agencies providing tax abatements, allocations of HOME funds, and locally generated subdebt, all of these subsidies that a decade ago were paired with LIHTCs that are now stand-alone with restrictions above the 60% AMI level.”

Costs a Driving Factor

Development costs are also driving demand for new workforce housing–financing mechanisms. Elie Rieder is CEO of Castle Lanterra Properties, a Suffern, N.Y.–based owner–operator of a workforce and market-rate housing portfolio that includes assets in Colorado, Texas, Georgia, Alabama, New Jersey, Florida, Virginia, and Maryland. He says the dramatic increase in construction costs makes it no longer economical to build workforce housing in the absence of innovations in finance. “Without the direct government subsidies that are often provided to affordable housing,” Rieder says, “workforce housing generally doesn’t benefit from the same types of financing structures that affordable housing can enjoy.”

According to Rieder, land costs across his markets have spiked 62% since 2012, with a corresponding 25% increase in labor and materials, creating a so-called “missing middle” market as developers veer toward high-end luxury or heavily subsidized affordable housing to get deals to pencil out. “With this supply-and-demand mismatch, we’re now faced with an acute shortage of reasonably priced rental housing for those who earn too much to qualify for subsidized housing but fall well short of the necessary income requirements to purchase a home or afford to rent a luxury unit,” Rieder says.

Freddie Mac expects the total volume for 2019 Non-LIHTC Forward Commitments to reach $250 million, further signaling the government-sponsored enterprise’s focus on workforce housing–finance innovation. In May, Bridge Multifamily Fund Manager and Freddie Mac Multifamily announced the closing of a transaction by which Freddie Mac will purchase and aggregate a year’s worth of loans (up to $500 million) for Bridge to acquire, improve, and preserve workforce and affordable housing across the country.

“That’s the context of the non-LIHTC forward program—an ongoing expansion to cover all affordability and liquidity gaps across all levels in multifamily," Leopold says. "It's one of a coordinated delivery of products that will be aimed at providing capital and expanding our relevance within workforce housing."

Back at the Lowney Chocolate Factory, the 36-month forward commitment from Freddie Mac will provide 130 units of mixed-income housing in the building that originally produced Oh Henry! candy bars and the chocolate chips for Chips Ahoy! cookies before closing down in 2011. Certainty of execution and interest-rate mitigation provided by the commitment also allowed for a total construction loan of $32.5 million, offset by $9 million in combined tax credits from the National Park Service and the Massachusetts Historical Commission.

"Leading this program off with the Chocolate Factory has been a great splash," Leopold says. "Adaptive reuse is always cool; historic preservation is cool for those of us who love real estate, but, more importantly, it was a priority of the community and we wanted to help them do it.

"Like so many markets across the country, this is a high-cost area, and the more we can help to create new, affordable units in areas of opportunity, the better."

multifamilyexecutive.com

By Chris Wood

Oct 2, 2018

CDFA Announces Winners of the CDFA Excellence in Development Finance Awards.

Read the CDFA Press Release.

Stanford's New Sustainable Finance Initiative to Help Unleash Capital Needed for Decarbonization.

A new Stanford program, supported by Bank of America, will fund research to develop the finance and policy tools needed for the transition to a decarbonized and climate-resilient global economy.

The global transition to low-carbon economies is dramatically transforming the investment landscape, especially in the enormous sectors of energy, agriculture and transportation. To unlock the massive amount of capital needed for that transition, Stanford University's Precourt Institute for Energy is launching a research program to develop new economic and financial models to more effectively manage risk and drive successful investment.

The Sustainable Finance Initiative at Stanford will work with leading public and private financial institutions, companies and governments to engage Stanford researchers in economics, law, business and computer science to accelerate the transition toward decarbonization and climate resilience. Bank of America, a founding member of Stanford's Strategic Energy Alliance, is supporting this initiative.

"A global expansion of capital deployment in low-carbon infrastructure is one of the most important prerequisites to building economies that will serve humanity for our children, grandchildren and beyond," said Sally Benson, co-director of the Precourt Institute and Stanford professor of energy resources engineering. "We value the support and the knowledge of collaborators like Bank of America as we all try to figure out the technologies, finance and economic structures needed for this new era in sustainability."

Continue reading.

STANFORD NEWS

BY MARK GOLDEN

OCTOBER 4, 2018

Where States and Prospective Governors Stand on Infrastructure in the 2018 Election.

States play a central role in overseeing America's infrastructure. They own roadways and many other transportation assets. They regulate a wide assortment of transportation, water, energy, and telecommunications systems. They manage billions in federal infrastructure funds and are increasingly looking to jumpstart new investments, while also choosing how and where to support local infrastructure efforts.

That's what makes 2018 such an important year. With 36 governor mansions up for grabs, a slew of new or incumbent executives will have four years to set their states' infrastructure agendas. Issues such as roadway design, environmental resilience, and overall funding levels will all run through the offices of these new governors.

But these infrastructure conversations and activities do not simply start after November 6. In many states, they have been a central feature of debates throughout a heated campaign season.

Continue reading.

The Brookings Institute

by Adie Tomer and Joseph Kane

Friday, October 19, 2018

How to Control the Fiscal Costs of Public-Private Partnerships.

"While in the short term, PPPs may appear cheaper than traditional public investment, over time they can turn out to be more expensive and undermine fiscal sustainability, particularly when governments ignore or are unaware of their deferred costs and associated fiscal risks."

Read the full article on: International Monetary Fund by Tim Irwin, Samah Mazraani, Sandeep Saxena | October 19, 2018

Intermediaries Are a Missing Ingredient in Conservation Finance.

Note: The article below covers an event hosted by Conservation Finance Network (CFN). The 6th Conservation Finance Practitioner Roundtable was held using Chatham House Rules, which require that quotes be anonymized. Select panelists from the session agreed to do on-the-record interviews. The Conservation Fund is a partner of CFN's and is represented on this website's leadership committee and review team.

Financial intermediaries can make new markets come alive, according to a key discussion from CFN's 6th Conservation Finance Practitioner Roundtable. From April 25-26, conservation, agribusiness, and impact investing experts gathered at the McKnight Foundation offices in Minneapolis, to share how they are building financing for conservation practices into mainstream agricultural systems.

The discussion of financial intermediaries was sparked by the panel "Copying the S-Curve." The panel featured experts specializing in clean energy and affordable housing. This panel sought to analyze how lessons learned from the growth of these sectors could be applied to conservation finance markets by focusing on the question, "How do practitioners scale ventures into investment-grade opportunities?"

CFN interviewed panelists Ben Healey, Catherine Godschalk, and Sean Penrith for this article. They each agreed during the panel and in follow-up interviews that the presence of intermediary institutions is part of what made their respective sectors able to grow and create nationwide impact.

What Is an Intermediary?

Ben Healey, director of clean energy finance at Connecticut Green Bank, defined an intermediary as "any number of institutional players that can help arrange capital such that project developers can then have access to it."

Banks are classic examples of intermediaries. One function of a traditional banking structure is pooling capital from different sources. The bank can then act as an access point for individuals or organizations that need financing. Essentially, a bank is an agent that plays a role in connecting the supply of capital with the demand for funding.

There are several examples of existing intermediaries in the conservation finance space. Penrith and Godschalk both mentioned The Conservation Fund's Conservation Loans Program. Solvitect, a credit aggregator described in a recent CFN piece on the new Stormwater Retention Credit Program in Washington, D.C., is a great example of an innovative intermediary seizing on an emerging opportunity.

However, each of the panelists agreed that a fundamental missing piece from the conservation finance market are the kind of intermediaries that can connect projects on the ground to the largest capital markets.

"When it comes to conservation finance, the entire infrastructure still needs to be built," said Sean Penrith, CEO of Gordian Knot Strategies.

The panelists supplied expert analysis of the value of impact sector-specific intermediaries during the event and in follow-up interviews. They emphasized that intermediaries serve key functions beyond capital collection and allocation, most importantly by providing market infrastructure that helps to structure, package and scale transactions.

Through this process, intermediaries become the backbone of a growing market.

What Opportunities Are Emerging?

The conservation finance field is wide open for intermediaries. Project aggregators with field expertise are needed to serve the substantial interest at the investor level. As CFN has [previously reported](), there is substantial interest in the conservation space within the impact-investing world. The infrastructure may still be developing, but building out intermediary institutions represents a massive opportunity for entrepreneurs willing to take the leap.

Panelist Catherine Godschalk, vice president of investments at Calvert Impact Capital, said, "We need on-the-ground discovery to understand what is going on – to unlock, de-risk and solve problems."

In doing so, intermediaries encourage the replicability and standardization that spread impact throughout a sector. They can help seed and grow projects on the ground while providing access to the kind of large-scale financing that new markets need to truly grow.

"How do you move beyond everybody needing to understanding your beautiful snowflake of a project?" Healey said. "The capital markets just want to make big decisions and allocate large sums. You make projects simple, replicable, scalable. That's the intermediaries' job. They can take the risk on the front end and then move it forward."

How Do Intermediaries Provide Replicability and Standardization for Investors?

"An intermediary can deliver a service on a turnkey basis for both buyers and suppliers," Penrith said. In this case, the buyers are capital markets and the suppliers are project developers while the service is the package of impact projects that the intermediary sells.

When asked for an example of how a successful intermediary can build an industry, Penrith said the emergence of energy service companies (ESCOs) is one of them. "In commercial industry and for commercial building owners, it is a clear advantage to have energy-efficient buildings."

However, at the individual-building level, it is not always worth the upfront cost for the building owner to install efficiency upgrades. The payoff from lower energy bills accrues slowly over time. While energy-efficiency projects yield savings over time, they can be inconvenient or unfamiliar at the individual level.

Intrepid entrepreneurs recognized the opportunity at hand. "Along came the ESCO model," Penrith said. "[ESCOs] were established to pay for the upgrades and manage them. These companies were paid through energy savings achieved."

Key to the ESCO business model is attracting enough project-level business to scale revenues over time. ESCOs developed expertise and created replicable energy-efficiency projects. By streamlining the upgrade process, ESCOs found a niche and became hyper-efficient in that space.

Importantly, ESCOs were able to package their projects as investable securities. With successful pilot projects and steady future streams of cash flows through energy cost savings, the ESCO model proved to be an attractive investment.

ESCOs had replicated their base revenue model to the point that projects were standardized, understood and packaged. Thus, they were able to attract the attention of capital markets to scale operations to the next level. With the help of large-scale financing, ESCOs created even greater impact on energy use.

“This is a great example of an intermediary providing a service on a turnkey basis,” Penrith said.

How Can Projects Bridge the Gap to Capital Markets?

There was wide consensus among Roundtable attendees that one of the keys to building the conservation finance sector is finding ways to access capital markets. Godschalk said, “We think the role that private capital has to play in solving our environmental challenges is massive. We will require massive amounts of scale to solve the world’s problems.”

Intermediaries need to play a part in channeling those funds to conservation projects. They accomplish this by acting as the conduit between major investors and concrete impacts.

“Fundamentally, in developing a market-based solution, the problem is not a lack of capital. It is that the capital does not have a path into financing projects,” Healey said.

Large financial institutions investing billions in capital do not want to get bogged down in the details of individual investments. In well-developed markets, investors depend on financial intermediaries to provide on-ramps to investment opportunities and to source interesting ideas.

As an example, Godschalk said her firm has a role as an intermediary on the capital continuum. “There are two levels of intermediation that are critical to moving capital efficiently from the private sector into impact opportunities. The first level [consists of] market-serving intermediaries, like Calvert Impact Capital, who structure products that can tap existing capital markets.”

What On-the-Ground Expertise Makes These Investments Work?

As the go-between for capital and projects, intermediaries also work at the project level. Godschalk said, “Market-serving intermediaries provide capital to the second level of intermediaries, community-serving intermediaries. Community-serving intermediaries offer products to serve businesses operating on the ground in communities.”

“At this level, intermediaries are closer to the community and the science, and understand the… risk that the capital takes,” said Healey.

Intermediaries are able to de-risk and standardize projects to connect them to the waiting capital markets. According to Godschalk, intermediaries serve a variety of functions at this on-the-ground level; they provide upfront venture and risk capital showing they have a stake in the outcome, advise and guide project developers, and help structure projects to make them more attractive to investors.

Because intermediaries have deep familiarity with their investment ecosystems, they are well-positioned to design investable products that meet their clients’ needs. Market-serving intermediaries know what capital markets require in terms of risk-adjusted returns. Community-serving intermediaries know what the project on the ground needs.

Healey went further. “The capital markets need to see some kind of package. That package can only be sold by [an] expert.”

The previously described ESCO model exemplifies how an expert intermediary can package and sell small projects to the capital markets.

“Community-facing intermediaries take capital and solve for requirements on the ground of highly local or sector-specific risks.” Godschalk said. “This community-serving intermediation is critical to a well-functioning market and is what the conservation finance sector needs more of.”

Conservation Finance Network

by Jeffrey Conti

October 17, 2018

How a Blue Wave May Help the Muni Market in 2019.

WASHINGTON – The federal policy making environment for the muni market will be more favorable next year if Democrats win back majority control of the U.S. House of Representatives in the November election.

With a Democratic majority next year, the new chairman of the tax policy-making Ways and Means Committee would be Rep. Richard Neal of Massachusetts who would succeed Republican Rep. Kevin Brady of Texas. Colleagues told The Bond Buyer that there is a stark contrast in the way the two men view tax-exempt bond financing.

Neal is a former mayor with 16 years of experience in local government whom colleagues describe as knowledgeable and supportive of tax-exempt bonds..

And Neal’s re-election is assured in the general election because he is running unopposed after winning a September Democratic primary for western Massachusetts’ 1st Congressional District with 71% of the vote.

Brady last year led the failed effort to terminate the tax exemption for private activity bonds. Republican colleagues say Brady is among the least sympathetic to tax-advantaged bonds among GOP members of Ways and Means.

Neal told The Bond Buyer last month Democrats are “confident but not cocky” about regaining the majority in the House. The outlook for the Senate is uncertain.

If Republicans retain their majority, Sen. Charles Grassley, R-Iowa, might succeed retiring Senate Finance Committee Chairman Orrin Hatch, R-Utah. And if Democrats eke out a majority the committee’s ranking Democrat, Sen. Ron Wyden of Oregon, would take the chairman’s gavel.

That potential change in leadership will have a profound impact because, as the nonpartisan Congressional Research Service noted, a chairman sets the panel’s agenda, calls hearings and determine which bills will be marked up.

Democrats in the House, such as House Democratic Caucus Chairman Joe Crowley, D-N.Y., say there’s no doubt Neal would ascend to the chairmanship.

“I think Richie is highly respected, not only in Democratic circles, but certainly throughout people who know tax policy,” Crowley said.

Neal spoke about how he would approach 2019 during a brief interview with The Bond Buyer following the markup of Tax Reform 2.0 in late September.

“One of the first things that we would do,” Neal said, “is that we are going to do hearings on their tax bills, both parts of it including 2.0. And I think that would shed some light on exactly why there are so many requests now to do some repairs on it.”

Mayors and governors would be asked to testify on the impact of last year’s federal tax bill on their cities and states if Neal chairs the committee.

“We’re going to hear from a wide array of sources,” Neal said, listing the National League of Cities, U.S. Conference of Mayors and “the bond market people” among those he would invite to testify.

Tax Reform 2.0 is an anathema to state and local government groups because it would make permanent the $10,000 cap on the federal deduction for state and local taxes.

The transfer of power to Democrats from Republicans, if it happens, also would come at a time when Congress is expected to take up major infrastructure legislation.

The tax treatment of bond financed infrastructure will be a key part of any package. Muni groups hope the legislation will expand the use of tax-exempt private activity bonds and will lobby for inclusion of a provision to restore advance refundings.

Infrastructure is one of the areas where lawmakers and President Trump will most likely be able to work together.

Senate Democratic Minority Leader Chuck Schumer of New York had high hopes of working with Trump on infrastructure in the early months of the new administration, before the White House and Republican Congress decided to focus on taxes instead.

Neal has “not just an empathetic ear but an informed ear” on muni issues, said Mayor Steve Benjamin of Columbia, S.C., chairman of the Municipal Bonds for America Coalition and president of the U.S. Conference of Mayors.

Benjamin said Neal “recognizes that protecting the tax exemption for muni bonds is sacrosanct for our federal tax policy.”

“We do believe Representative Neal would be an able chairman if in fact the people of America decide that the House will go Democratic and we look forward to working with him and also our friends on both sides of the aisle,” Benjamin said. “We’ve found some thoughtful, articulate members on both sides of the aisle and we look forward to maintaining all of those relationships.”

Muni groups have contributed to Neal’s re-election campaign, as well as other House and Senate lawmakers who are considered allies. Neal has received $2,500 from the Bond Dealers of America Political Action Committee, $1,500 from the American Public Power Association PAC and $1,000 from the Securities Industry Association PAC.

The Airports Council International-North America PAC, which has given 55% of its 2018 campaign donations to Republicans, gave Neal $1,500.

Control of the House last flipped after the first two years of President Obama’s first term, noted Republican Rep. Tom Reed of New York. He acknowledged this year’s election could produce a result similar to 2010 when Republicans regained the majority in the House.

Reed, a former mayor of Corning, N.Y., said he has “a lot of respect” for Neal, saying he is “one on the other side of the aisle who you can work with.”

“He’s a good faith legislator and as a mayor I think that you recognize what you’re here for,” Reed said. “And that’s fundamentally to help people. And he’s of that ilk.”

Neal and the former Sen. John Kerry, D-Mass., successfully worked to include a provision in the February 2009 Economic Recovery and Reinvestment Act that exempted private activity bonds from the Alternative Minimum Tax for two years.

“Airports saved well over $1 billion in financing costs over that time” because of that provision, said Annie Russo, senior vice president for government and political affairs of the Airports Council International-North America.

“He has spent a lot of time working on projects in his district that have an infrastructure and transportation focus, especially redevelopment projects,” Russo said.

One former senior House staffer pointed to Neal’s longtime work to redevelop the historic Union Station in his hometown of Springfield that serves as an Amtrak stop for the Northeast Corridor, which extends from Boston to Washington.

Neal launched his first campaign for local elected office in 1977 with a pledge to save the station. The redevelopment took more than 35 years to complete.

Neal served 16 years in local government as mayor of Springfield, Mass., as a city council member and mayoral aide before running for Congress.

Another former mayor on Ways and Means is Rep. Bill Pascrell, D-N.J., a former mayor of Paterson, N.J. who described Neal as a “very moderate Democrat who does the right thing.”

“He knows his stuff before he opens his mouth,” Pascrell added. “I think he’ll be very fair to everybody and will want input from the other side.”

Pascrell said the municipal bond market has a friend in both him and Neal. “I was a mayor,” he told The Bond Buyer. “I’m very familiar with what your readers are all about.”

Pascrell said he thinks Neal already has talked to mayors about the role of bonds, which Pascrell said “have been responsible in large part for the growth and rebirth of many cities in this country.”

Republicans “don’t think much of cities,” Pascrell said. “They never talk about them except when you ask them a question. It’s like the president never talks about labor standards when he talks about NAFTA in terms of Mexico. We know where their priorities are.”

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 10/17/18 07:02 PM EDT

CBO Report: Federal Support for Financing State and Local Transportation and Water Infrastructure.

Sixty percent of state and local investment in transportation and water infrastructure is financed using tools that impose costs on the federal government: tax-exempt bonds, tax credit bonds, state banks, and direct federal credit programs.

Read the Report.

Congressional Budget Office Report

October 17, 2018

CBO Report: Public Spending on Transportation and Water Infrastructure, 1956 to 2017

In 2017, spending by federal, state, and local governments for transportation and water infrastructure totaled $441 billion. This slide deck updates information that CBO released in 2015.

View Document

Congressional Budget Office

October 15, 2018

S&P Through The ESG Lens: How Environmental, Social, And Governance Factors Are Incorporated Into U.S. Public Finance Ratings

S&P Global Ratings continues to provide transparency on how it incorporates Environmental, Social, and Governance (ESG) factors into its credit rating analysis. Such high-profile S&P Global Ratings credits as Puerto Rico, Detroit, Mich., Galveston, Texas, and Michigan State University signal the strong linkage between ESG factors and their effects on cash flows and institutional borrowers' ability

Continue Reading

Oct. 10, 2018

S&P U.S. Public Finance: Advance Notice Of Proposed Criteria Change: Priority-Lien Tax Revenue Debt

S&P Global Ratings intends to publish on Oct. 22, 2018, its revised criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited. The proposed revised criteria provide market participants with greater insight into the ratings methodology…

Continue Reading

Oct. 10, 2018

[S&P Updated Advance Notice Of Proposed Criteria Change For Priority-Lien Tax Revenue Debt Published.]

S&P Global Ratings today said it published an updated Advance Notice Of Proposed Criteria Change for Priority-Lien Tax Revenue Debt. The revised notice signals our intent to make best efforts to publish the Priority-Lien criteria Oct. 22, 2018. It also identifies information we need to rate debt under the new criteria, the steps we will take to acquire this information, and the actions we might take…

Continue Reading

Oct. 10, 2018

[States Have Reason to Share Trump's Concern With Rates.]

- **Rate increases boost taxpayer costs to float bond issues**
- **Benchmark 10-year muni yields hit highest since early 2014**

State officials have reason to share President Donald Trump's unhappiness with rising interest rates.

California, Illinois, Wisconsin and Connecticut are preparing to sell $2.3 billion in bonds, collectively, just as interest rates reach multi-year highs. For cities and states, every basis point on a deal is important, given taxpayers usually are ultimately on the hook for the borrowing.

The 10-year benchmark yield for top-rated municipal borrowers hit the highest since early 2014 amid expectations the Federal Reserve will continue to raise rates. The move might sting for states and local governments tied to bond sales scheduled months in advance as part of planning public works.

David Erdman, capital finance director at the Wisconsin Department of Administration, said he's watching the market to see how much more interest rates increase before making a decision on the timing of the state's $362 million debt sale, which is currently set for next week.

"It's been a pretty ugly market and we'd like to get some stability and enter the market when there's more stability," Erdman said.

Still, interest rates remain attractive for municipal-bond issuers compared to the past two decades, Erdman added.

California, which has sold bonds in October or November for the last five years, is one of the states affected by the selloff. The yield premium that investors demand on California 10-year general-obligation bonds — the type of debt the state is selling next week — has widened to about five basis points over the benchmark. Less than two months ago, the AA- rated state's debt was trading at yields as much as seven basis points below AAA rated borrowers.

Bloomberg Economics

By Amanda Albright

October 11, 2018, 10:30 AM PDT

— With assistance by Elizabeth Campbell

The Week in Public Finance: How the New NAFTA Deal Impacts States.

The revised trade pact keeps the original agreement's free trade zone intact while placing some new burdens on the auto industry.

After President Trump threatened for more than a year to withdraw from NAFTA, auto-manufacturing states breathed a sigh of relief when he announced a renegotiated trade agreement earlier this month with Canada and Mexico.

A U.S. withdrawal from the 1994 pact would have resulted in the reimposition of tariffs on specific goods between the U.S., Canada and Mexico. The impact would have been felt most acutely by states such as Michigan that do a lot of business with the two countries.

The revised trade pact, dubbed the United States Mexico Canada Agreement, keeps the free trade zone intact while placing some new burdens on the auto industry. Two new key requirements include introducing a higher minimum-wage standard and boosting the required share of auto parts and components from North America up to 75 percent from 62.5 percent.

Industry observers have reacted positively to the deal mainly because there is one. "It's a positive compared with the alternative," says Moody's Investors Service analyst Ted Hampton. "But a lot remains to be seen."

Michigan stands to benefit the most from the deal; more than one-quarter of the state's economy is subject to the NAFTA trade zone, according to an analysis released this week by Moody's. That's largely thanks to both its heavy reliance on auto manufacturing and its shared border with Canada.

Alabama, Indiana and Kentucky also stand to benefit as large parts of their economy rely on auto manufacturing.

Still, a lot of uncertainty remains when it comes to the new agreement and trade in general.

For starters, Congress and the Canadian and Mexican legislatures still need to approve the deal, which is scheduled to take effect in 2020.

In addition, the new labor and part sourcing restrictions are expected to cut into the auto industry's bottom line. While that could encourage more auto jobs to move to the U.S., it could also discourage auto production overall in North America. "At this point we don't anticipate that," says Hampton, "but it certainly is a risk."

Meanwhile, other global trade hurdles imposed by the president still threaten state economies. Trump has imposed tariffs on Chinese goods worth $250 billion, has threatened tariffs on another $276 billion in Chinese products, and has applied tariffs on steel and on foreign aluminum — to which Canada and Mexico are still subject.

Those moves have raised import and domestic costs significantly. According to a report this week from the group Tariffs Hurt the Heartland, tariff costs increased by nearly half in August compared with a year earlier. In Michigan, tariff costs tripled and they more than doubled in states such as Illinois, Texas and West Virginia.

In other public finance news:

The Most- and Least-Solvent States

Nebraska, South Dakota, Tennessee, Florida, and Oklahoma are the top five most fiscally sound states, according to the Mercatus Center at George Mason University, which ranks the 50 states according to their financial condition.

The study measures how well states can meet short-term and long-term bills by examining their financial statements. The study found that most states are in a stable condition, with the exception of those with large unfunded pension liabilities.

The least fiscally solvent state is Illinois. Not only are its long-term liabilities equal to three times the state's total assets, it doesn't even have enough cash on hand to meet its short-term liabilities. Illinois is followed by Connecticut, New Jersey, Massachusetts and Kentucky.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 12, 2018

How Rainy Day Funds Help Cities Prepare for Revenue Volatility.

Officials from Los Angeles, Baltimore, Philadelphia, and S&P discuss how the reserves work and the impact on credit ratings

During and after the Great Recession, tax revenue plunged in many U.S. cities and states, forcing government officials to lay off employees and cut public services.

Today, more than a dozen major cities have rainy day funds to prepare for the next downturn. On Sept. 28, The Pew Charitable Trusts hosted a panel discussion in Philadelphia on the pros and cons of these reserves—and their role in city finances and credit ratings.

Ben Ceja, assistant administrative officer for Los Angeles, told the audience that he sees his city's rainy day fund as one part of a financial toolkit. "We don't want to be in crisis management" in the next downturn, Ceja said. "We want as many tools as possible for when times are not as good as they are now."

Continue reading.

The Pew Charitable Trusts

October 11, 2018

Disaster Recovery: School Infrastructure Resilience Roadmap & Best Practices

Communities facing the loss of a school after a hurricane, earthquake or other disaster can increase school infrastructure resilience. Get a roadmap for stakeholders, tools and best practices.

School districts that face the loss of a school in a natural disaster like a hurricane face myriad challenges after the immediate danger passes, ranging from education and public safety to reconstruction. To improve community resilience, replacement schools can be designed to mitigate disaster risk and increase school infrastructure resilience in affected areas following a disaster.

The World Bank Global Program for Safer Schools (GPSS) offers a 2017 roadmap to engage stakeholders and 2018 100 Resilient Cities workshop in Cali, Columbia, generated best practices for communities focused on or required to increase school infrastructure resilience.

Continue reading.

efficientgov.com

by Andrea Fox

October 11, 2018

FEMA Disaster Recovery Reform Requires Local Investment, Empowers Local Decisions.

The new Disaster Recovery Reform Act of 2018 (DRRA) makes changes to how local governments will fund disaster mitigation and respond in a crisis.

WASHINGTON – The Disaster Recovery Reform Act of 2018 (DRRA) was signed into law as part of the Federal Aviation Administration Reauthorization Act of 2018 late last week.

Agencies and governments receiving FEMA federal assistance will be required to set aside some of their disaster assistance funding for mitigation efforts, such as elevating existing structures, protecting utilities, making buildings more wind resistant, installing fire-resistant roofing. In addition, the executive branch would be able to authorize federal reimbursement of up to 75 percent of state and local hazard mitigation efforts under the law.

According to the FEMA announcement, the reforms “acknowledge the shared responsibility of disaster response and recovery, aim to reduce the complexity of FEMA and build the nation’s capacity for the next catastrophic event.”

“This transformational legislation will allow the emergency management community to continue to improve the way we deliver assistance before, during and after disasters,” said FEMA Administrator Brock Long. “We’ll never be able to eliminate all risks, but this enables us to take action now so that individuals and communities will be better positioned to recover more quickly when disasters do occur. We thank Congress, the administration and our state and local partners in their efforts to move this critical reform package forward.”

Highlights from the DRRA include:

Continue reading.

efficientgov.com

by EfficientGov Staff

October 10, 2018

Investment in Infrastructure Is Booming.

Private-equity firms are on course to raise a record amount to invest in pipelines, telecom assets and the like

Private-equity firms are on track to raise a record amount for infrastructure investing in 2018, as money managers bet on the growing need to upgrade and expand the world's railroads, natural-gas pipelines and data centers.

The firms collectively raised $68.2 billion in the first three quarters of the year, up 18% over the same period in 2017 and already surpassing the $66.2 billion they amassed in all of 2016, according to data from Preqin.

Leading the charge are KKR & Co., Stonepeak Infrastructure Partners and I Squared Capital, which each raised a roughly $7 billion investment vehicle this year.

Continue reading.

The Wall Street Journal

By Miriam Gottfried

Oct. 7, 2018 10:00 a.m. ET

U.S. Conference of Mayors Releases New Report on How Competitive Bidding Can Help Nation's Troubled Water Infrastructure.

Report Shows Cities Could Save Billions of Dollars Over Next Decade on Replacing Aging Pipes

Washington, DC—As the nation's aging infrastructure continues to threaten water systems as well as the country's health and economic vitality, a new report released today by the U.S. Conference of Mayors (USCM) shows how cities could potentially save billions of dollars over the next 10 years. The report examines the daunting challenges cities face with replacing hundreds of thousands of miles of aging and failing pipes, which are the single costliest water and sewer capital investment. By changing the competitive bidding process, the report shows that the country could save an estimated **$20.5 billion for drinking water and $22.3 billion for storm water** in pipe material costs alone.

The report reviewed new data comparing cost per foot for different pipe materials and open versus closed procurement processes. It concludes that updating procurement policies can save as much as 30% of capital costs, helping mayors stretch the dollars needed to address local infrastructure challenges.

"The best way for us to protect our cities from a water crisis is to invest in upgrading the water and sewer infrastructure. Local governments already provide nearly 98% of the annual investments needed for their water infrastructure and struggle to keep water rates affordable for their communities. While this report shows promising ways in which cities can implement cost-savings measures, we cannot do it alone. Mayors stand ready to work with Congress so that together we can meet the very real challenges the country is facing with its crumbling infrastructure," said USCM Vice President Rochester Hills (MI) Mayor Bryan Barnett.

The report illustrates that one solution cities can no longer afford to overlook is opening up their procurement processes so that managers have the freedom to consider all suitable project materials. As part of the report's findings, Burton (MI) Mayor Paula Zelenko shared that "allowing the bidding of different pipe materials, not only forced suppliers to sharpen their pencils, it ended up saving the city of Burton over $2 million by using PVC pipe…on our $25 million water main replacement project."

"Cities spent $360 billion on water and sewer pipes from 1993 to 2017. Mayors want efficient solutions that make the best use of limited resources without compromising the performance or safety of their water systems. This report sheds critical light on a viable alternative that should be explored. A strong national infrastructure is crucial if our country is to remain economically competitive with the rest of the world," said USCM CEO and Executive Director Tom Cochran.

Key Findings of the report include:

- The average cost to replace drinking water pipes in an "open competition" system is 26% per mile less expensive than in "closed competition" regions;
- For stormwater, the savings from "open competition" averages 39% per mile;
- Nationally, "open competition" could save an estimated $20.5 billion for drinking water and $22.3 billion for storm water in pipe material costs alone over the next 10 years.

See here for the full report.

Statement by U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin on Passage of America's Water Infrastructure Act of 2018.

Washington, DC — Below is a statement by U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin on today's passage of America's Water Infrastructure Act of 2018:

> "The nation's Mayors applaud Congress's bipartisan efforts to pass America's Water Infrastructure Act of 2018, a bill that addresses the pressing needs of the country's water infrastructure.
>
> "The bill marks a positive step forward and will bring much-needed investment to key water infrastructure projects, including harbors, locks, dams, and flood protection, all of which are critical to the safety of our communities and the strength of the nation's

economy. We are also pleased that the bill provides financial resources and technical assistance to address other urgent concerns such as lead contamination in drinking water, resilience to natural hazards and workforce development and training.

"We are grateful to our Congressional colleagues for their willingness to work with the nation's mayors, especially since local governments fund nearly 98 percent of all water and wastewater infrastructure investment. While the bill does not address all of our concerns, namely the shortfall of the Harbor Maintenance Fund and providing local governments the ability to address unfunded federal mandates, it does show how we can deliver real solutions when we set aside partisan differences and work together. We look forward to continuing our work with Congress on these priorities."

October 10, 2018

Fitch Ratings: Minimal Roadblocks for U.S. Toll Roads

Fitch Ratings-San Francisco-11 October 2018: U.S. toll road performance continues to coast along despite idiosyncratic weaknesses affecting two rated toll roads, according to Fitch Ratings in its latest U.S. Toll Roads Peer Review.

Positive operating performance across the sector has continued largely unabated since Fitch's last Peer Review. Strong traffic and revenue growth largely drove upgrades on three toll road systems (Central Florida Expressway Authority, Grand Parkway System and Maryland Transportation Authority).

"The Grand Parkway system is building liquidity faster than anticipated, and it has little to no dependence on future growth to meet its debt service obligations," said Director Scott Monroe.

Even with the likelihood that some of these systems will have to take out more debt for future ramp-ups, revenue is more than sufficient to cover all first and second tier debt service obligations.

Fitch took two negative rating actions on toll road projects over the last year. It revised the Rating Outlook on Dulles Greenway to Negative from Stable due to weakening traffic and revenue performance. Fitch similarly revised the Outlook for Miami-Dade County Expressway to Negative because of state government intervention.

"By usurping local autonomy in order to lower toll rates and divert surplus revenues, the Florida State Legislature's unprecedented intervention could affect Miami Dade County Expressway's ability to allocate funds for capital expenditures in future years and to issue additional debt," said Monroe.

Strong performance is likely to continue for the new projects and liens Fitch has added to its publicly rated portfolio over the last several months, among them Bay Area Toll Authority (subordinate lien rated 'AA-' with a Stable Outlook), San Diego Association of Governments' (SANDAG; senior lien rated 'A-' with a Positive Outlook) and West Virginia Parkways Authority's (WVPA; senior lien rated 'AA-' with a Stable Outlook).

Fitch's latest 'Peer Review of U.S. Toll Roads' is available at 'www.fitchratings.com'

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Why Public Transportation Works Better Outside the U.S.

The widespread failure of American mass transit is usually blamed on cheap gas and suburban sprawl. But the full story of why other countries succeed is more complicated.

When it comes to the quality of public transit, comparisons between American cities and international counterparts are usually met with a simple response: "It's different over there."

These differences, the argument goes, are vast and fundamental: Europe is far more densely built, and its older cities—settled centuries before the automotive age—will always be innately transit-friendlier. In Asian cities, meanwhile, explosive urban growth has been accompanied (and accelerated) by massive government investments in urban rail networks. But the U.S. boomed in the 20th-century's automobile age, and the private car is still king; most American cities and their suburbs are utterly dependent on them.

How did transit become such an afterthought in Americans' transportation habits? I addressed that question in detail in an earlier CityLab piece. But to briefly summarize: Transit everywhere suffered serious declines in the postwar years, the cost of cars dropped and new expressways linked cities and fast-growing suburbs. That article pointed to a key problem: The limited transit service available in most American cities means that demand will never materialize—not without some fundamental changes.

Continue reading.

CITY LAB

by JONATHAN ENGLISH

OCT 10, 2018

Report: Climate Risk, Real Estate, and the Bottom Line

OCTOBER 11, 2018 – BOSTON, MA – Four Twenty Seven & GeoPhy Release First Global Dataset on Real Estate Investment Trusts' Exposure to Climate Change.

Four Twenty Seven and real estate technology company GeoPhy today announce the release of a data product that provides granular projections of the impacts of climate change on real estate investment trusts (REITs). REITs represent an increasingly important asset class that provides investors with a vehicle for gaining exposure to portfolios of real estate. The data was launched at the Urban Land Institute Fall Event in Boston, MA, accompanied by a white paper that lays out the implications of climate risk for the real estate sector.

Continue reading.

Four Twenty Seven

by Kendall Starkman

Posted on October 11, 2018

Municipal Utilities Need to Be Smart When Implementing a Smart Meter Program.

The United States Court of Appeals for the Seventh Circuit (the "Seventh Circuit") recently decided the case of *Naperville Smart Meter Awareness v. City of Naperville*, 900 F.3d 521 (7th Cir. 2018). The suit brought by Naperville Smart Meter Awareness ("NSMA") alleged that the collection of smart meter energy-consumption data by the City of Naperville, Illinois, (the "City") constituted an unreasonable search under the Fourth Amendment of the U.S. Constitution and should be prohibited.[1] The Seventh Circuit made two important holdings in the case. First, it held that the collection of smart meter data is, in fact, a search under the Fourth Amendment. Second, it held that under the specific facts of the case, the City's smart meter program constitutes a reasonable search and thus does not violate customers' Fourth Amendment rights.

[1] NMSA also brought state constitutional claims under the Illinois constitution that are not addressed here.

The Seventh Circuit's ruling in *Naperville* represents a significant precedent for how courts will consider challenges to the collection of smart meter data by government owned utilities throughout the Seventh Circuit (including Indiana). Indiana communities with municipally owned electric utilities would be well-served to consider the intricacies of the *Naperville* decision when planning, designing, and implementing smart meter systems. The case may also share applicability to municipally owned water utilities implementing smart meter programs.

Facts

The City received an $11 million federal grant to update its municipally owned electric utility and create a smart grid, including the installation of smart meters for every customer. Smart meters collect customers' energy-consumption data more frequently than traditional meters and store that data for extended periods of time. In this case, data was collected every 15 minutes and stored for up to three years. The municipally owned electric utility monitors the data and uses it to reduce utility costs, provide cheaper power, encourage energy efficiency, and increase grid stability. The City's municipally owned electric utility presented the only feasible option for the City's residents to obtain electricity, and customers were not allowed to opt out of the smart meter program.

NSMA's Argument

NSMA claimed that the frequency at which the smart meters collect data – in 15-minute intervals – amounted to an unreasonable government search of the customers of the municipally owned electric utility, thus violating their Fourth Amendment rights. The Fourth Amendment protects, among other things, people against unreasonable searches of their home and person by government entities. A municipally owned utility equates to a government entity for Fourth Amendment purposes.

Data Collection Constitutes a Fourth Amendment Search

Although no physical entry to the home occurs, the court determined that the collection of smart meter data is, in fact, a search because the frequency at which the data is collected can reveal the happenings inside the home by analyzing energy consumption patterns and appliance load signatures for individual homes. The Seventh Circuit noted that courts have held that thermal mapping constituted a search subject to the Fourth Amendment in other cases.

Search Reasonable under Unique Facts of City's Smart Meter Program

The Seventh Circuit determined, however, that the facts surrounding the City's smart meter program did not rise to the level of an unreasonable search. In making that determination, the court weighed the privacy interests of customers against the City's interest in the data. According to the court's analysis, in this specific instance, the government's interest in the data was substantial, and the customers' privacy interest was minimal. Therefore, the collection of data by smart meter was reasonable and did not violate customers' Fourth Amendment rights.

The court held that the collection of smart meter data by a municipally owned electric utility served a legitimate government interest because it can be used to reduce utility costs, provide cheaper power, encourage energy efficiency, and increase grid stability, which all serve to promote a significant public good. Furthermore, the search is minimally invasive and unlikely to result in corollary criminal consequences for customers because the City guaranteed that no data would be given to third parties, including law enforcement.

Conclusion

The *Naperville* decision provides a road map for any municipally owned electric utility, especially those in the Seventh Circuit, considering a smart meter program. The Seventh Circuit expressly limited its determination that the City's search was reasonable to the facts of the case. Accordingly, a municipally owned utility looking to implement a smart meter program should examine the details and circumstances of the *Naperville* case to avoid running afoul of customers' Fourth Amendment rights. Furthermore, it is likely that *Naperville's* application is broader than municipally owned electric utilities. It likely extends to any municipally owned utility employing highly technical devices to obtain more frequent data collection from consumers, such as smart meters for water consumption data.

To view all formatting for this article (eg, tables, footnotes), please access the original here.

Bingham Greenebaum Doll LLP

by David T. McGimpsey

October 11, 2018

[CUSIP: Municipal, Corporate Equity and Corporate Debt Pre-Market Activity Slows from Record Highs Reached in August.]

"The monthly decline we're seeing in CUSIP request volume this September looks dramatic when compared with the significant surge in volume we saw in August, but, the month did follow historically normal volume trends," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "It is notable, however, that the September slowdown coincided with historic high yields on U.S. Treasuries, possibly indicating that the rising rate environment will crimp the growth of new security issuance in the months to come."

Read report.

October 10, 2018

Tax or Just Spend? Colorado Ballot Box Fight Echoes U.S. Divide.

- **Fight over how to pay for road work mirrors national debate**
- **Two propositions on subject differ on taxes, size of bond sale**

The national debate on infrastructure funding has come to a head in Colorado, where voters are considering two clashing measures on the November ballot that propose record bond sales for much-needed road repairs in a state struggling to keep up with its rapid growth.

The key questions underlying the two measures, propositions 109 and 110, are whether the state should raise taxes or use existing revenues to pay for billions of dollars in transportation projects and whether some of the money should be spent on public transit.

Proposition 109, known as "Fix Our Damn Roads," would authorize Colorado to sell up to $3.5 billion in bonds without raising taxes to fund 66 road, bridge, and tunnel projects. Proposition 110, known as "Let's Go Colorado" would prompt the state to sell up to $6 billion in bonds, raise sales taxes from 2.9 percent to 3.52 percent for 20 years, and allocate 15 percent of new revenue toward public transit, including light rail and biking projects.

State law dictates that if both pass, the measure with the most yes votes supersedes any point of conflict with the other measure, such as how much to borrow, how to pay for it and how to spend the money. If neither passes, a law approved this year requires another bond measure, for $2.3 billion, go to voters in November 2019.

The Centennial State hasn't approved a bond measure for transportation in almost two decades, when a $1.7 billion bond was passed in 1999. Voters rejected a $2 billion measure in 2005. If either of the competing initiatives passes, it would be the biggest municipal bond approval in the state's history.

Right Plan?

On one side of the debate are rural, more conservative bond supporters who say the state should use money from the budget to back bonds and spend proceeds only on fixing roads and bridges.

"Quite frankly, most folks here don't really care if light rail or bus or bike paths are available," said

Debbie Bell, a commissioner in Fremont County, an area with less than 50,000 people and home to several prisons. "Most citizens believe there is no rural need for multimodal transportation."

On the other side are business interests and government officials in population centers who say fixing transportation is more than just paving roads and filling potholes.

Proposition 110 and raising taxes make fiscal sense, argued Kelly Brough, president and chief executive of the Denver Chamber of Commerce. The burden of paying a sales tax would also be shared by visitors and tourists, Brough argued, easing the load on residents.

"It's less expensive if we do this right and have a funding stream that the market can count on," Brough said.

Bloomberg Politics

By William Green

October 12, 2018, 11:15 AM PDT

Rout Drives Discounts on Muni-Bond Funds to Most in Five Years.

- **Average closed-end fund trades at 11 percent less than assets**
- **Bond price drop, rising cost of leverage take a toll**

The swift rise in interest-rates and growing leverage costs have pushed discounts on municipal-bond funds to their widest in almost five years.

The discount, or the difference between a closed-end fund's share price and the underlying value of its assets, is 11.1 percent, according to Ryan Paylor, a portfolio manager at Thomas J. Herzfeld Advisors Inc. in Miami. Such funds have lost 7.3 percent this year, more than five times the loss in the broader municipal market, and investors will likely sell shares if prices bounce to offset capital gains tax liability, he said. That could delay any recovery.

"It has been ugly," said Paylor.

Many closed-end funds use leverage, which boosts returns when prices rise and sharpens losses when they fall. Yields on 30-year municipals have climbed 0.23 percentage point since the beginning of the month, reducing the value of debt held by the funds. Meanwhile, leverage costs have continued to rise as the Federal Reserve increases short-term rates, shrinking the income generated by the funds.

Closed-end funds raise a fixed amount of money from shareholders in a public offering, unlike mutual funds, which continually sell and redeem shares. The funds are traded on stock exchanges and can sell at premiums or discounts to their net value of the securities they own.

Tax-loss selling before the end of the year could cause discounts on muni-closed end funds to widen further. More than 90 percent of municipal closed-end funds have posted a loss this year. About 15 percent of 168 funds have lost more than 10 percent.

"Even if munis bounce, muni CEFs won't until 2019," Paylor said.

Bloomberg Markets

By Martin Z Braun

October 11, 2018, 9:30 AM PDT

[Short Bets Against Muni Bond ETFs Are on the Rise.]

- **Short positions in BlackRock, State Street muni funds jump**
- **Adds to bearish signals after some ETFs had record outflows**

Speculators are increasing their bets against some of the biggest municipal-bond exchange traded funds, wagering the share prices will drop as rising interest rates sting the state and local government debt market.

Traders have boosted their short positions in State Street Corp.'s $2.8 billion SPDR Nuveen Bloomberg Barclays Municipal Bond ETF to the highest on record, according to the most recent figures. And short interest in BlackRock Inc.'s $9.4 billion iShares National Muni Bond ETF has risen the highest since late 2017 as tax-exempt debt keeps posting losses.

The short positions by late September add to other bearish signals facing the market, where ETFs serve as a bellwether for investor sentiment. Some of the largest muni ETFs, including the BlackRock fund, have seen record outflows in the last two weeks.

State and local debt has posted a 1.3 percent loss since September as data showing the economy is expanding at a solid pace led investors to anticipate the Federal Reserve will continue to raise interest rates. Analysts are closely watching for signs of whether individual investors who dominate the market will react by pulling out funds, as they have en masse during previous downturns.

Bloomberg Markets

By Amanda Albright

October 10, 2018, 6:39 AM PDT

[Investors Yank Record Cash Out of Stock, Real Estate, and Muni ETFs.]

- **Analysts say big moves are part of a market rotation**
- **Ten-year Treasury yield remains near highest since 2011**

With U.S. Treasury yields at multiyear highs, investors are pulling record amounts of cash out of large-cap stock, municipal bond and REIT exchange-traded funds.

The huge drawdowns are part of what some strategists are calling a big market rotation as growth stocks and smaller companies, winners earlier this year, get pummeled.

"We have really established this new range on the 10-year," said Victoria Fernandez, chief market strategist for Crossmark Global Investments Inc., who expects 10-year Treasury yields to stay around the 3.25 percent level. "Everyone's trying to figure out how they want to be positioned for this.”

Large Caps

The $18.3 billion iShares Russell 1000 ETF, ticker IWB, saw $2.7 billion pulled from the fund Monday, the largest outflow in its 18-year existence, amounting to a loss of more than 12 percent of its assets. The ETF tracks the performance of the Russell 1000 Index, which includes the largest 1000 companies in the Russell 3000 Index.

The fund’s outflow looked like it was driven by one large investor, according to Josh Lukeman, head of ETF market making for the Americas at Credit Suisse Group AG. The block trades didn’t seem to show up in the print until about 8:10 a.m. Tuesday in New York, when three blocks of about 5.5 million shares each hit the tape one after another.

“A lot of volume trades on the close, so given the fund is mostly U.S. large caps, that’s going to be the best point for liquidity,” Lukeman said.

The FANG cohort of high-flying growth stocks are all top-10 holdings in the fund. Together, Apple Inc., Microsoft Corp., Amazon.com Inc., Facebook Inc., and Alphabet Inc. make up nearly 15 percent of the ETF. That’s been a drag as the tech stocks have languished in the wake of rising rates.

Real Estate

The run-up in yields has pushed ETF investors to flee typical bond proxies. The iShares Cohen & Steers REIT ETF, or ICF, saw its biggest outflow ever Monday, losing more than $464 million. The outflow reduced the fund’s assets by 19 percent. The iShares U.S. Real Estate ETF, or IYR, lost $87 million on Monday following a week of record outflows that totaled more than $834 million. It’s already on pace this month to lose the most since April 2015.

“The real estate sector has sold off to start October, as investors have sold out of high-dividend yielding bond proxies,” said Todd Rosenbluth, director of ETF research at CFRA Research. “Further, the large-cap REITs that are well-represented in these ETFs are expected to generate below-average earnings in the second half of the year.”

Municipal Bonds

The Vanguard Tax-Exempt Bond ETF, or VTEB, is the market’s third-largest fund tracking municipal bonds. It got hit with a massive outflow of over $25 million on Monday, the biggest since the $3.6 billion fund launched in 2015. Investors also yanked record cash from BlackRock’s $9.5 billion iShares National Muni Bond ETF, the largest muni ETF, last week. State and local debt has posted a nearly 1 percent loss this year after mounting fears over rising interest rates prompted a sell-off last week.

Bloomberg Markets

By Sarah Ponczek, Carolina Wilson, and Vildana Hajric

October 9, 2018, 8:40 AM PDT

— With assistance by Amanda Albright, and Tom Lagerman

City to Borrow $46 million - But Incurring This Debt Won't Require Voter Approval.

The Palo Alto City Council tonight (Oct. 15) will consider a plan for financing construction of a $45.8 million parking garage in the California Avenue district, using a process that doesn't involve voter approval.

Under the financing method, called Certificates of Participation, or COPs, the city would lease some of its property to the Palo Alto Public Improvement Corp., an entity formed by the city in 1983 to serve as an intermediary in financing activities. The Public Improvement Corp.'s board consists of the city council's members.

The leased property would be the parking garage itself after construction is complete; before then, the leased property would likely be the Rinconada Library, according to a report to the council from City Manager Jim Keene.

After leasing the property, Palo Alto Public Improvement Corp. would then lease the property back to the city. Investors who buy the certificates of participation would be paid with a portion of the lease payments.
Money for the lease payments — an estimated $2.417 million per year for 30 years — would come from the city's General Fund. Voter approval is not needed to sell Certificates of Participation.

Bonds require voter approval

In contrast, California cities need voter approval to issue general obligation bonds, which are backed by property tax revenue.

In a document issued in the mid-1990s, the California state treasurer's office offered cities advice on lease-based financing such as Certificates of Participation. The treasurer said the lease-based strategies were becoming the financing method of choice for many cities.

"This 'quiet revolution' in municipal finance, however, has raised concerns as to the role of the public in deciding questions of infrastructure spending and public borrowing," the treasurer noted.

The state treasurer recommended that cities establish a lease capacity, "that portion of general fund revenues which safely can be devoted to lease payments on an annual basis." Other guidelines advised determining the need for the proposed project, as well as the cost-effectiveness of the lease financing.

In addition, the treasurer said, cities should create financial reports that include all leasing activity "as a check against the unplanned accumulation of general fund lease obligations."

$410,000 in fees

The city would raise up to $50 million by selling the Certificates of Participation, which would be used to build the parking garage. The proceeds would also cover the approximately $410,000 in costs to issue the certificates.

Standard and Poor's is giving the certificates a rating of AA+, the highest possible for certificates of participation. That should lead to more competitive bidding for the certificates, according to Keene's report.

With council approval, the Certificates of Participation would be sold by the end of the year.

The California Avenue parking garage will be built on the city's surface parking lot at 350 Sherman Ave. It will provide a total of 636 parking spaces on six levels: four above ground and two underground.

The city says construction of the garage is a "key step" toward building a new police station on neighboring property at 250 Sherman Ave. Construction of the police station would proceed after the parking garage is completed.

The parking garage and police station are part of the city's infrastructure plan. Palo Alto is also looking to raise money for infrastructure projects through Measure E, the city's proposal on the November ballot to raise the hotel tax in Palo Alto from 14% to 15.5%. Measure E is expected to generate about $2.6 million a year.

Tax-exempt COPs?

Another detail to be determined regarding the certificates of participation for the California Avenue parking garage is whether all the certificates issued will be tax-exempt. While tax-exempt certificates may be more appealing to investors, issuing a portion of the certificates as taxable would allow the city to lease a floor of the garage to a private entity.

If one-quarter of the certificates were taxable, the city's debt service would increase by an estimated $1.1 million over the 30-year amortization period.

The Daily Post

by Elaine Goodman

October 15, 2018

[Pimco CEO's First Acquisition: a Muni-Bond Business]

Pacific Investment Management Co. agreed to buy a municipal-bond specialist to beef up its tax-exempt investments business

Pacific Investment Management Co. agreed to buy a municipal-bond specialist, the firm's first acquisition since appointing Emmanuel Roman as chief executive.

Gurtin Municipal Bond Management oversees $14 billion in assets for wealthy individual investors. Pimco said Tuesday it plans to add the San Diego-based firm to its dedicated muni-bond arm, the people said, giving the combined business $38 billion in that business. Terms of the deal weren't disclosed.

Pimco oversees a total of $1.7 trillion across all assets, making it one of the world's largest money managers.

Mr. Roman ran hedge-fund firm GLG Partners before spearheading its sale to Man Group PLC, and made a string of deals there. While his arrival at Pimco's Southern California headquarters raised expectations that the bond manager would begin to snap up rivals, Mr. Roman repeatedly has said a takeover spree was unlikely.

“As you have heard us say before, Pimco’s strategy is to grow mostly organically but we will consider making small acquisitions where it fits strategically with our business strategy and vision for the firm,” Mr. Roman and Pimco investment chief Dan Ivascyn wrote Tuesday in a memorandum to employees. “This is precisely the case with Gurtin.”

Messrs. Roman and Ivascyn said that Gurtin’s investment team will continue to manage its funds and separate accounts. The firm’s founder, Bill Gurtin, plans to remain “involved in the business for several years,” they wrote in the memo, which was reviewed by The Wall Street Journal.

Pimco said it expects to complete the Gurtin deal by the end of the year.

The Wall Street Journal

By Justin Baer

Oct. 2, 2018 12:30 p.m. ET

[NACo: Trump Signs First Round of FY2019 Spending Bills.]

The president’s signature is on three of 12 necessary spending bills for FY2019

President Trump signed into law Sept. 21 a bipartisan minibus spending package consisting of three FY2019 spending bills: the Energy-Water, Military Construction-Veterans Affairs and Legislative Branch appropriation bills. The president’s signature completes three of 12 spending bills that need to be signed into law for FY2019.

Following are highlights from the bills of interest to counties:

Energy and Water Appropriations bills

The Energy and Water portion of the bill funds the U.S. Department of Energy (DOE), U.S. Army Corps of Engineers civil works program, U.S. Department of Interior’s Bureau of Reclamation and several other federal government agencies at a total cost of $44.64 billion for FY 2019.

The Energy and Water Appropriations bill is important to counties because it funds federal energy, water and flooding-related infrastructure projects in local communities.

U.S. Department of Energy (DOE): The bill contains $35.7 billion for DOE, $4.9 billion above FY2018 levels. DOE’s Office of Energy Efficiency and Renewable Energy (EERE) will see its budget increased by $57 million to $2.4 billion. EERE works to develop and promote clean, affordable and secure energy.

U.S. Army Corps of Engineers (Army Corps) civil works program: The Army Corps will see its budget increased by $172 million to $7 billion. The Army Corps is charged with building, maintaining and operating coastal and inland waterways, addressing flooding risk and strengthening ecosystem restoration through their civil works program.

Specific programs of importance to counties include the Harbor Maintenance Trust Fund, which will receive $1.55 billion, a $150 million increase above FY2018 levels and water infrastructure projects funded at $2 billion to be allocated toward flood and storm damage reduction activities.

U.S. Department of Interior's Bureau of Reclamation: The legislation includes $134 million for water storage projects authorized in the Water Infrastructure Improvements for the Nation (WINN) Act, which is overseen by the Bureau of Reclamation.

Military Construction-Veterans Affairs Appropriations bill

The Military Construction-Veterans Affairs portion of the bill provides more than $86.5 billion in discretionary funding for the U.S. Department of Veterans Affairs (VA), an increase of $5 billion over FY2018 enacted levels.

This funding, which will help ensure the nation's veterans receive the quality health care services they have earned, is broken down as follows:

VA Medical Care: $72.3 billion is allocated to the VA to provide health care services, about $5 billion above FY2018 levels. Of this, $8.6 billion is allocated toward mental health services; $206 million for suicide prevention outreach; $400 million for opioid abuse prevention; $270 million for VA rural health initiatives; and $7.5 billion for treatment, housing and other services for homeless veterans.

Medical Community Care: $9 billion is provided to the Medical Community Care program, which funds non-VA care provided to veterans, family caregiver programs and other services. Specifically, the family caregiver program will receive $865 million in FY2019.

Veteran Homelessness: $1.8 billion will be directed to VA's homeless assistance programs such as the Supportive Services for Veteran Families (SSVF) program, which will receive $380 million.

Veterans Justice Outreach: This program, which provides access to mental health and substance abuse resources and treatment for justice-involved veterans, will receive more than $54 million.

Congress has until Sept. 30, the end of the fiscal year, to wrap-up the FY2019 annual appropriations process or pass a continuing resolution to keep the government open past that date.

National Association of Counties

Oct. 1, 2018

Tolls for All May Pay for Nation's High-Speed Rail: Joe Mysak

- **Bond lawyer suggests making transportation 'fundamental right'**
- **Universal collection system would charge for roads, parking**

The subject of infrastructure is like the weather. Everybody complains, but nobody does anything about it.

The reason we can't have nice things is because nobody wants to pay for them. What we get are isolated, often political, projects, deferred maintenance, expedient patchwork.

Kenneth Bond, a municipal bond lawyer with Squire Patton Boggs who has been involved in public finance since 1975, has an idea about how to fix the nation's infrastructure, or at least the public transportation piece of it.

"It requires making transportation a fundamental right and mandated regionalization on a national level, entitled to equal protection analysis like the right to vote or freedom of worship," Bond recently told the Transportation Committee of the Bar Association of the City of New York. He reprised his remarks over dinner and subsequent emails.

Make transportation a right? "It's not a stretch," said Bond. "In the modern era, without good transportation and infrastructure, a person cannot exercise their first amendment rights. A poor person is denied first amendment rights if the cost of commuting is prohibitive or facilities don't exist. Wealth, as well as race, has been recognized by courts as a suspect classification entitled to strict scrutiny under equal protection. Combined with an argument that transportation is a fundamental right, you have a powerful tool for allocating transportation resources."

What does this mean in practice? A transportation plan has to be a national mandate, and regionalization of transportation facilities must "discard political boundaries in favor of boundaries of economic activity."

This also means encouraging the development of cities that reduce the use of automobiles, as well as mandating rail connectivity from central cores to airports, Bond said.

How do we pay for this? The lawyer favors user fees collected through an electronic toll collection system like "EZ Pass," with all automobiles mandated to have such a system installed at the point of manufacture. "Oregon has experimented with electronic vehicle metering for the cost of road usage. The idea may seem radical, but so did seat belts, headrests and air bags when mandated for vehicle safety 40 or more years ago."

Fees for all road use and parking would be billed to the owner of the vehicle, and if they didn't pay, an electronic boot would disable the vehicle.

"Under this system, users pay for the roads and highways, not taxpayers," and generate money to be used for intra- and intercity rail projects. "A national plan for getting people out of interminable traffic with single-passenger trucks and SUVs into high-speed rail from anywhere to anywhere is all about fare equity, efficiency, resiliency, a clean environment and national security," Bond said.

Bloomberg Business

By Joe Mysak

October 3, 2018, 6:24 AM PDT

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

[Build America Mutual Launches BAM GreenStar Assessment to Identify Municipal Green Bonds.]

Independent review will be available to issuers of BAM-insured bonds at no added cost

NEW YORK–(BUSINESS WIRE)–Build America Mutual today announced the BAM GreenStar Assessment program to identify green bonds sold by U.S. municipal bond issuers for infrastructure projects that provide clear environmental benefits.

New BAM GreenStar Assessment will highlight green bonds from US state and local governments

“BAM GreenStar is an additional service we can provide to our issuer members and the investing public,” said BAM Chief Executive Officer Seán W. McCarthy. “BAM GreenStar will build on our successful efforts to make municipal credit information more accessible in our BAM Credit Profiles by adding transparency about the environmental benefits of the projects we help finance.”

BAM GreenStar designations will be available on qualifying BAM-insured bonds at no extra cost to the issuer. BAM’s criteria for identifying green bonds is aligned with the International Capital Markets Association’s Green Bond Principles and eligible projects include investments in sustainable water and wastewater systems, renewable energy and the construction or renovation of energy efficient buildings, among others.

Bond issuers who sell green bonds to finance qualifying projects can access the growing pools of capital that are dedicated to investments in sustainable infrastructure for essential services in the U.S.

“America’s cities, towns and villages are leaders in sustainability and resilience,” said Clarence E. Anthony, CEO and executive director of the National League of Cities (NLC). “By making it easier for cities and all municipal bond issuers to sell Green Bonds, the BAM GreenStar Assessment will help cities continue to invest in infrastructure that is resilient, sustainable and environmentally-friendly.”

U.S. municipal bonds made up approximately 9% of global supply of green bonds in 2017, and the Climate Bonds Initiative has identified the market as a source for increased volume in the future. BAM has applied for status as an Approved Verifier for Certified Climate Bonds, which can be sold by issuers whose projects align with CBI’s Taxonomy for low-carbon investing.

“There is a significant opportunity to scale up green bond sales by U.S. municipal issuers and BAM is well-positioned to contribute to that effort by raising awareness of the benefits of green bond financing for issuers and reducing the transaction costs for green bond sales,” said Sean Kidney, CEO of the Climate Bonds Initiative. “We look forward to working with them to expand the US market for financing climate-aligned projects.”

October 02, 2018 07:00 AM Eastern Daylight Time

About Build America Mutual

BAM is a mutual bond insurance company operated for the benefit of its members – the cities, states and other municipal entities that use BAM’s financial guaranty to lower their cost of borrowing. BAM is the National League of Cities’ preferred provider of bond insurance for its members. Through September 28, 2018, BAM has insured more than $50 billion of municipal securities for more than 3,000 municipal issuers nationwide. Learn more at http://buildamerica.com/mission/

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[BlackRock, UBS Join Shift to Muni Market's Middle as Rates Rise.]

- **More investors are saying to buy intermediate-dated bonds**
- **The shift comes after pullback from pricey short-term debt**

The hot new trade in the $3.9 trillion municipal-bond market is in the middle of it all.

Investors and strategists from BlackRock Inc., UBS Wealth Management and McDonnell Investment Management say investors in state and local debt should buy intermediate-maturity securities, such as those due in 10 to 15 years. The calls come after short-dated debt — a previously flocked-to haven for investors seeking protection from rising interest rates — was bid up to pricey levels by late July, only to since retreat.

“That part of the curve is interesting right now, where you can capture a lot of the steepness that exists in the muni market,” said Neuberger Berman portfolio manager James Iselin, who favors bonds maturing between seven to 12 years.

Investors can pick up “meaningful” additional yield compared with short-dated debt, with top-rated tax-exempt bonds maturing in 10 to 12 years offering about 65 to 70 basis points more than two-year debt, he said in an interview.

BlackRock, which oversees $129 billion in municipals, is also shifting its weight toward that part of the curve and going out a bit longer. The firm favors buying municipals maturing between 15 to 20 years, said Sean Carney, head of municipal strategy.

“That is a preferential area for us,” he said in an interview. BlackRock still uses a barbell strategy that allows it to have an allocation to the front end of the curve, Carney added.

The difference between short- and long-term yields has stayed larger on municipal bonds than it has for Treasuries for most of 2018 because investors have clamored for short-dated securities, pushing yields lower. At the same time, long-dated municipals have seen less demand from corporate buyers as a result of the tax-rate cut, which has helped to keep those yields higher.

Some investors say going out even longer on the curve is beneficial. Susan Courtney, head of the municipal-bond team for PGIM Fixed Income, said the firm favors longer maturities, such as 20 to 25 year debt, when the yields are adequate.

Municipal debt maturing in 22 years or longer has delivered a negative return of 1.8 percent this year, a steeper loss than other maturity group, according to Bloomberg Barclays indexes. Courtney said the firm is willing to buy longer debt because PGIM’s view is that interest rates aren’t likely to go much higher.

“It comes down to specific credits and where we think we’re getting compensated for being longer,” she said.

Bloomberg Markets

By Amanda Albright

October 5, 2018, 10:07 AM PDT

— With assistance by Danielle Moran

Muni-Bond Slide Leaves Test: Will Key Buyers Flee in Droves?

- **Individual investors are slow to react, but prone to panic**
- **They own more than half of bonds, directly or in funds**

Municipal bonds suffered their worst week since early February, but the real test of the market lies ahead: Will slow-to-react individual investors pull their money out in droves, as they have during previous downturns?

Individuals, who own more than half of all state and local governments bonds directly or through mutual funds and don't follow the minute-by-minute movement of interest rates, haven't hit the sell button yet. They pulled just $44 million from municipal debt funds in the week ended Wednesday, according to Lipper U.S. Fund Flows data, even after the securities posted their worst monthly return since January.

Prices have slipped steadily since Wednesday and continued to edge down Friday, when the U.S. Labor Department reported that the unemployment rate hit a nearly half-century low. That pushed benchmark 30-year yields up 0.14 percentage point this week to 3.4 percent, a more than three-year high.

"Rates have moved but there hasn't been a material sell-off," said Nicholos Venditti, a municipal-bond portfolio manager with Thornburg Investment Management in Santa Fe, New Mexico. "Until you see more dramatic outflows, either because people are afraid of rates or because they want to get out of munis and go buy Amazon.com stock, that test isn't going to take place."

Even though state and local government debt is one of the world's safest investments, buyers are still prone to so-called headline risk, or bad news stories that undermine its perception as a haven and cause investors to sell when they should stay put.

That happened in 2010, when banking analyst Meredith Whitney triggered a sell-off by predicting that recession-battered governments would default on "hundreds of billions of dollars" of bonds. That forecast proved widely off the mark, and in 2011 municipals returned 11 percent.

Since municipal bonds don't trade heavily, spikes in inflows or outflows can have a larger impact on prices than in other markets.

The pace of selling may quicken when investors start opening their statements and see losses, or if the pace of new debt sales picks up, Venditti said. Fixed-rate municipal-bond issuance has declined 12 percent compared to last year, adding ballast to the market. But the pace may quicken in the closing months of the year.

"Bankers want to do their deals before year-end, especially when it's in conjunction with a rising rate environment," said Robert DiMella, executive managing director and co-head of MacKay Municipal Managers.

Tax loss selling could bring further pressure, he said. With the S&P 500 Index up more than 7 percent this year, bondholders may sell to offset gains in stocks to cut next year's tax bills. But DiMella said a downturn could be a good thing: He and other professional investors may have a chance to pick up bonds on the cheap.

Bloomberg Markets

By Martin Z Braun

October 5, 2018, 10:32 AM PDT Updated on October 5, 2018, 12:18 PM PDT

How Public Pension Boards Are Making a Crisis Worse.

Because of the way they're structured, they have incentives to ignore the retirement plans' long-term health.

For the last decade, analysts have been arguing over whom to blame for America's state and local pension crisis. Politicians? Public employee unions? Financial markets? Amid the din, the detrimental role of public pension boards has been overlooked.

There is a mounting body of evidence that pension boards, which oversee the funds created by employer and employee contributions, are partly to blame for the underfunding problem. Pension board members' incentives lead them away from a focus on the plans' long-term fiscal health. In a new report, I document those incentives and their consequences and recommend ways to mitigate — and even eliminate — the governance issues.

The long-term costs of failing to act to deal with mounting pension debt are enormous. In 2015, the Federal Reserve estimated that states' and localities' pension funds had accumulated $5.52 trillion in liabilities but had set aside only $3.7 trillion in assets. To ensure that public employees receive the benefits promised by their plans, state and local governments are spending more every year on their pension systems. According to census data, those governments contributed $40.1 billion to their pension systems in 2000; by 2016, that number had skyrocketed to $140.5 billion. In addition, pension funds are making riskier investments in an effort to catch up.

How are public pension systems governed? For state pensions, the governor and the legislature determine what percentage of workers' salaries will be replaced in retirement and how much government employers contribute annually to the funds. Then state governments delegate authority to manage the funds to boards with, typically, 15 or so members.

These boards decide how fund assets are invested, designate money managers and determine the assumed rate of return on the funds' investments (these days, usually between 7 and 8 percent). The actual market performance of the pension funds affects taxpayers' future liabilities and governments' future contributions.

In theory, the pension boards are supposed to balance the interests of government employers and public employees. To strike this balance, boards are comprised of both employer and worker representatives. The employer side is made up of members appointed by governors or who hold other public office and serve ex-officio. The plan-participant side elects workers and retirees to the boards, individuals who are also often union officials.

The problem is that both the political appointees and the elected representatives have incentives to ignore the long-term health of the funds. Political appointees are responsive to constituencies, such as the governor who appointed them or local businesses, that distract them from managing the fund strictly in its beneficiaries' long-term interest. Meanwhile, public employees and their union representatives are tempted to trade pension savings tomorrow for higher salaries today.

How do these incentives play out? To hold down short-run costs, political appointees are likely to favor high assumed rates of investment returns, which keep employer contributions lower and avoid throwing a wrench in the governor's budget. Political appointees also tend to favor investing in local industries — whether or not they are actually profitable. Two Texas funds were heavily invested in Enron before it went bankrupt, for instance. And in 1990, Connecticut's state-employee fund lost $25 million investing in Colt's, the firearms manufacturer, to preserve local jobs.

Likewise, public employee representatives respond to workers' demand for higher salaries today by keeping the assumed rate of investment returns high. In a recent study, political scientists Sarah Anzia and Terry Moe found that elected representatives of public employees did not seek to impose more realistic — that is, lower — assumed rates of investment returns. Rather, they found, more worker representation on boards and stronger public unions led to more fiscally irresponsible decisions.

The larger consequence of the misaligned incentives of pension boards is that they don't protect employees and taxpayers from major financial risks. Poorly managed pension systems are now consuming the politics – and much of the budgets — of Connecticut, Illinois, New Jersey and other states.

Therefore, governments should take two steps. In the short term, they should require greater financial expertise, more clearly define fiduciary duties and implement other controls. In the longer term, states should move away from traditional defined-benefit plans and offer 401(k)-style defined-contribution plans for new employees. Since workers with defined-contribution plans decide for themselves on their contributions and investments, making defined-benefit plans a thing of the past would wisely eliminate the need for pension fund boards altogether.

governing.com

By Daniel DiSalvo | Contributor

OCTOBER 1, 2018

A Moot Point: Court Of Appeals For The Eleventh Circuit Holds That The Doctrine Of Equitable Mootness Is Applicable In A Chapter 9 Bankruptcy Case.

The consummation of a plan of reorganization typically involves a series of complex actions by the debtor and its stakeholders (for example, existing debt and equity are extinguished and new debt and equity issued in their place). If an appeal of a confirmation order is taken, and the appeal reaches the appellate court following consummation of the plan, it raises the difficult question of whether it is possible to grant effective relief to the appellant at that stage. As a constitutional matter, courts — including appellate courts — cannot hear matters that have become moot. Constitutional mootness, however, has a high bar of requiring a showing that no relief is possible at the time. Bankruptcy appeals create the unique problem that relief might technically be possible, but due to the actions taken in connection with consummation of the plan, it may no longer be possible to grant the relief requested in any practical manner. The doctrine of equitable mootness has been developed as a bridge between the rigorous requirements of constitutional mootness and the practicalities of an appellate court no longer being able to grant effective relief following consummation of a plan of reorganization.

Although equitable mootness has been applied in numerous different situations, it had not previously been considered by a circuit court of appeals in the context of a municipal bankruptcy case under chapter 9 of the Bankruptcy Code. That changed when, on August 16, 2018, the United States Court of Appeals for the Eleventh Circuit issued a decision holding that equitable mootness is applicable in chapter 9 municipal bankruptcy cases. This decision, which reversed the lower courts, noted that the doctrine of equitable mootness can apply particularly where a claimant does not seek a stay pending appeal.

Background

Jefferson County filed for bankruptcy relief in November of 2011. In June of 2013, the County announced the terms of an agreement with almost all of its major creditors, whereby the County would issue and sell in public markets new sewer warrants, with the proceeds and other funds being used to redeem and retire the prior sewer warrants (totaling about $3.2 billion) at a reduced amount of about $1.8 billion. Pursuant to the agreement, the County (or the bankruptcy court if the County failed to act) would implement a series of single-digit-percent sewer rate increases over 40 years, which the County would not be able to decrease in a given fiscal year unless it could somehow offset the decrease.

At the confirmation hearing, a group of Jefferson County ratepayers objected to the County's proposed plan. They argued, among other things, that by taking the ability to set rates out of the hands of elected Jefferson County commissioners, the plan infringed on their rights to vote and to be free from overly burdensome debt without due process. The bankruptcy court confirmed the plan over the ratepayers' objections. The confirmation order provided for the bankruptcy court to retain jurisdiction for the 40-year life of the new sewer warrants to, among other things, adjudicate controversies regarding the implementation or enforcement of the approved rate structure and issuance of the new sewer warrants. The bankruptcy court exercised its discretion to waive the automatic stay of the effectiveness of a confirmation order when it entered the confirmation order.[1]

The ratepayers filed their notice of appeal on December 1, 2013, two days before the plan's effective date. The ratepayers, however, did not seek a stay of the implementation of the confirmation order from either the bankruptcy court or the district court (which acts as the first level of appeal for bankruptcy cases) pending the appeal, nor did they request that their appeal be expedited. In December of 2013, pursuant to the terms of the confirmation order, the County issued the new sewer warrants. The proceeds from the sale of those warrants went in part towards retiring the prior sewer warrants, with more than $1.454 billion going into a clearinghouse system to pay individual and institutional investors.

In their appeal, the ratepayers argued that the bankruptcy court had allowed the County commissioners to bind the County as a whole, impermissibly reducing the autonomy of the County and the political voice of the voters of Jefferson County. The ratepayers also argued that the bankruptcy court could not constitutionally retain jurisdiction to conform sewer rates to the plan over a 40-year period (which rate instead had to be set in compliance with Alabama law). The County moved to dismiss the ratepayers' appeal, arguing that any challenges to the confirmation order were constitutionally, equitably and statutorily moot because the plan had been consummated and the transactions that were contemplated could not be unwound.

The district court rejected each of the County's mootness arguments. The district court concluded that, with respect to constitutional mootness, while the consummation of the plan might limit the scope of relief available to ratepayers, the court still could fashion some form of meaningful relief. The district court also held that equitable mootness does not apply to constitutional challenges to a confirmation order in a chapter 9 proceeding, despite the failure of the ratepayers to seek, let alone obtain, a stay of the confirmation order.[2] The County appealed that decision to the Court of Appeals for the Eleventh Circuit.

Decision

The Court of Appeals agreed with the district court that the case is not constitutionally moot. The Court of Appeals noted that constitutional mootness emanates from the "case or controversy" requirement of Article III, and agreed with the district court that the ratepayers did not meet their heavy burden of establishing that the courts lacked the legal authority to issue the relief sought by the ratepayers.

The Court of Appeals, however, reversed the district court on the basis that the ratepayers' appeal is equitably moot. The Court of Appeals identified several considerations for deciding whether the doctrine of equitable mootness bars an appeal (e.g., when permitting an appeal to proceed will impact actions taken in good faith reliance on a final and unstayed judgment), but noted that overall, the more complex the transaction and the longer the time that has passed since confirmation of the plan, the harder it will be to undo the past. Consistent with the decisions of other courts in the chapter 11 context, however, the Court of Appeals also made clear that regardless of the complexity and time that has passed, if the relief sought does not undermine actions taken in reliance on the judgment, then effective relief may be possible. Importantly, courts will be less likely to find an appeal equitably moot if the aggrieved party did everything it could to limit the passage of time by seeking a stay pending appeal, and that the appeal itself be expedited.

Turning to the question of whether equitable mootness applies in the chapter 9 context, the Court of Appeals reasoned that because the doctrine is driven by its principles rather than any particular codification or arbitrary limitation, there was no reason to reject the doctrine entirely in chapter 9 cases. The Court of Appeals dismissed the ratepayers' argument that chapter 9 bankruptcies implicate issues of sovereignty, whereas corporations or individuals and their bankruptcies do not. Indeed, the Court of Appeals noted that these principles will sometimes weigh more heavily in the chapter 9 context precisely because of how many people will be affected by municipal bankruptcies.

The Court of Appeals also noted that the ratepayers never asked any court to stay the implementation of the plan.[3] When the County commenced the appeal, the confirmation order (and the plan) had been in effect for more than a year. Moreover, the County and others have taken significant and irreversible steps in reliance on the unstayed plan which was confirmed by the bankruptcy court, including issuing over $1 billion of new sewer warrants, which were sold based on a commitment—backed up by an unstayed court order—to set sewer rates at particular amounts over the course of the next 40 years, and used the proceeds to retire the old sewer warrants. The Court of Appeals found that the relief sought—even if limited to striking the provision of the plan giving the bankruptcy court jurisdiction with respect to future rates—would seriously undermine actions taken in reliance on the confirmation order.

Finally, the Court of Appeals was not persuaded by the ratepayers' argument that the plan has resulted in an end-run around political processes. Although the County has indeed bound itself to raise rates for decades according to a particular schedule and with limited exceptions, elected officials can and often do bind their successors—and consequently, their constituents—to all kinds of unavoidably long-lasting financial effects. The Court of Appeals stated that it knows of no authority for the proposition that such government action becomes an illegal end-run around constitutional governance. As a result, after evaluating the factors relevant to an equitable mootness determination, the Court of Appeals held that the ratepayers' appeal was equitably moot.

Discussion

The Court of Appeals noted that the doctrine of equitable mootness emerged at least a few decades ago in the various federal courts of appeals in connection with corporate bankruptcy cases, and that, while the Supreme Court has never endorsed the doctrine, neither they—nor any court of appeals—have ever rejected it outright. The Eleventh Circuit saw no reason the underlying purpose of equitable mootness in chapter 11—namely, the inability to grant effective relief post-consummation of a plan—would not apply equally to a municipal bankruptcy case. Although the decision is not binding on other circuits, it is difficult to see why other circuits would reach a different conclusion about the applicability of the doctrine of equitable mootness in chapter 9 cases. Likewise, the decision may offer some insights into how the doctrine may apply in appeals in a PROMESA[4] case involving Puerto Rico or its instrumentalities, as PROMESA relies heavily on chapter 9 concepts.

To view all formatting for this article (eg, tables, footnotes), please access the original here.

by Fredric Sosnick, Solomon J. Noh, Joel Moss and Ned S. Schodek

USA October 1 2018

Shearman & Sterling LLP

Task Force on Climate-Related Financial Disclosures: 2018 Status Report

2018 Status Report: Executive Summary

In June 2017, The Task Force on Climate-related Financial Disclosures (Task Force or TCFD) released its final recommendations (2017 report), which provide a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. In its 2017 report, the Task Force emphasized the importance of transparency in pricing risk—including risk related to climate change—to support informed, efficient capital-allocation decisions. The Task Force also recognized the challenges associated with measuring and disclosing information on risks related to climate change, but underscored that moving climate-related issues into mainstream annual financial filings would allow practices and techniques to evolve more rapidly.

For many investors, climate change poses significant financial challenges and opportunities. The expected transition to a lower-carbon economy is estimated to require around $3.5 trillion, on average, in energy sector investments a year for the foreseeable future, generating new investment opportunities. At the same time, the risk-return profile of companies exposed to climate-related risks may change significantly because of physical impacts of climate change, climate policy, or new technologies. In fact, one study estimated the value at risk to the total global stock of manageable assets because of climate change ranges from $4.2 trillion to $43 trillion between now and the end of the century. The study highlights that "much of the impact on future assets will come through weaker growth and lower asset returns across the board." This suggests investors may not be able to avoid climate-related risks by moving out of certain asset classes as a wide range of asset types could be affected.

Both investors and the companies in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital. Companies that invest in activities that are susceptible to climate-related risks may be less resilient to the transition to a lower-carbon economy; and their investors may experience lower returns. Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, long-term investors need adequate information on how companies are preparing for a lower-carbon economy; and those companies that meet this need may have a competitive advantage over others.

Climate-Related Financial Disclosure Review

As part of its efforts to promote adoption of the recommendations, the Task Force prepared this status report to provide an overview of current disclosure practices related to core elements of the TCFD recommendations as well as additional information to support preparers in implementing the recommendations. It is important to note that the Task Force has not attempted to assess the level of adoption of its recommendations for this report nor whether existing climate-related financial disclosures fully meet the TCFD recommendations. Companies implementing the recommendations in their 2017 reports had a very limited amount of time between the release of the Task Force's 2017 report and the start of their internal processes to prepare their 2017 financial filings. As a result, in its review of disclosures, the Task Force focused on how many companies, in eight specific groups, included information in recent reports that addressed the core elements of the Task Force's recommended disclosures.

While the Task Force found some of the results of its disclosure review encouraging, it also recognized further work is needed for disclosures to contain more *decision-useful* climate-related information. The majority of companies reviewed disclosed information that is aligned with at least one of the recommended disclosures in their financial filings, annual reports, or sustainability reports. In addition, the Task Force found several instances of disclosures addressing the core element of each of the 11 recommended disclosures. These results demonstrate that it is both possible and practicable for companies to disclose certain baseline climate-related information today. Key takeaways from the review are summarized in Figure E1.

The review results also indicate that climate-related financial disclosures are still in early stages. This is consistent with the Task Force's view that implementation of its recommendations is a journey and companies are in different places in terms of their exposure to climate-related risks and opportunities and their reporting capabilities. The Task Force encourages more companies to use its recommendations as a framework for reporting on climate-related risks and opportunities during the next reporting cycle, especially companies with material climate-related risks. Companies in early stages of evaluating the impact of climate change on their businesses and strategies and those that have determined climate-related issues are not material are encouraged to disclose information on their governance and risk management practices.

The Task Force believes the results of its climate-related financial disclosures review highlight the need for continued efforts to support implementation of the recommendations. To this end, companies supporting the Task Force's work have undertaken many initiatives to encourage implementation in different industries and with different areas of focus. The TCFD Knowledge Hub, with more than 400 resources, offers a starting place for companies working on implementing the TCFD recommendations. In addition, industry working groups are tackling industry-specific implementation challenges, including scenario analysis. These and many other efforts are critical for achieving climate-related financial disclosures that provide decision-useful information for investors and others.

Next Steps

In the nearly 15 months since the 2017 report was released, the Task Force has focused on promoting and monitoring adoption of its recommendations. During that time, the Task Force has seen significant momentum around and support for its work. When the report was issued, it was supported by just over 100 chief executive officers. Less than six months later, at President Emmanuel Macron's One Planet Summit in Paris, Michael Bloomberg announced the TCFD had over 230 supporters. Today, the TCFD has more than 500 supporters, including 457 companies and 56 other organizations (e.g., industry associations, governments). The companies represent a broad range of sectors with a combined market capitalization of over $7.9 trillion. This includes over 287 financial firms, responsible for assets of nearly $100 trillion. In addition to the 457 companies that support the TCFD, the Task Force's review identified another 104 companies that, in their financial filings or sustainability reports, stated they are already aligning their reporting with the TCFD or expressed intent to implement the recommendations. The TCFD has also received support from governments—Belgium, France, Sweden, and the United Kingdom—as well as financial regulators around the world, including in Australia, Belgium, France, Hong Kong, Japan, the Netherlands, Singapore, South Africa, Sweden, and the United Kingdom.

Over the next nine months, the Task Force will continue to promote and monitor adoption of its recommendations and will prepare a second status report for the Financial Stability Board in mid-2019. The Task Force believes the success of its recommendations depends on continued, widespread adoption by companies in the financial and non-financial sectors. Through widespread adoption, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital.

2018 Status Report: Key Takeaways

The majority disclose some climate-related information. The majority of companies reviewed disclosed information aligned with at least one recommended disclosure, usually in sustainability reports.

Financial implications are often not disclosed. While many companies disclose climate-related information, few disclose the financial impact of climate change on the company.

Information on strategy resilience under different climate-related scenarios is limited. Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.

Disclosures vary across industries and regions. Companies' areas of focus in terms of climate-related financial disclosures vary significantly. For example, a higher percentage of non-financial companies reported information on their climate-related metrics and targets compared to financial companies; but a higher percentage of financial companies indicated their enterprise risk management processes included climate-related risks. In terms of regional differences, a higher percentage of companies in Europe disclosed information aligned with the recommendations compared to companies in other regions.

Disclosures are often made in multiple reports. Companies often provided information aligned with the TCFD recommendations in multiple reports—financial filings, annual reports, and sustainability reports.

Download 2018 Status Report

September 2018

[How Green Infrastructure Yields Urban Safety and Health.]

Greenprint Partners is field-testing a green infrastructure-financing approach that could help make communities healthier and safer in a small group of Rust Belt cities. In an interview, Nicole Chavas, the company's CEO and cofounder, and Rose Jordan, its marketing director, said the models have expansion potential. If adopted on a larger scale, they could improve the quality of life in many low-to-moderate-income urban neighborhoods.

Continue reading.

Conservation Finance Network

by Kat Friedrich

September 23, 2018

The Big U.S. City Trying to Break with Wall Street.

In a push to divest public funds from corporate giants, Los Angeles is asking voters to approve a city-owned bank.

"Wall Street owns the country." That was the opening line of a fiery speech by populist leader Mary Elizabeth Lease in 1890. Franklin Roosevelt said it again in a letter to Edward "Colonel" House in 1933, and U.S. Sen. Dick Durbin was still saying it in 2009. "The banks—hard to believe in a time when we're facing a banking crisis that many of the banks created—are still the most powerful lobby on Capitol Hill," Durbin said in an interview. "And they frankly own the place."

Wall Street banks triggered a credit crisis in 2008 to 2009 that wiped out more than $19 trillion in household wealth, turned some 10 million families out of their homes, and cost almost 9 million jobs in the United States alone; yet the banks were bailed out without penalty, while defrauded homebuyers were left without recourse or compensation. The banks made a killing on interest rate swaps with cities and states across the country, after a compliant and accommodating Federal Reserve dropped interest rates nearly to zero. Attempts to renegotiate these deals have failed.

In Los Angeles, the City Council was forced to reduce the city's budget by 19 percent after the banking crisis, slashing essential services, while Wall Street has not budged on the $4.9 million it claims annually from the city on its swaps. Wall Street banks are now collecting more from Los Angeles just in fees than the city has available to fix its ailing roads.

Continue reading.

Yes! Magazine

Ellen Brown posted Oct 03, 2018

Fitch U.S. Public Finance and Global Infrastructure and Project Finance 2017 Transition and Default Study.

Read the study.

28 Sep 2018

Fitch Ratings Updates US State Revolving Fund and Muni Finance Pool Program Criteria.

Fitch Ratings-Austin-27 September 2018: Fitch Ratings has published an update to its "U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Criteria." This report replaces the previous report of the same title initially published on Oct. 10, 2017. There have been no changes to Fitch's underlying methodology.

Read the Updated Criteria.

S&P U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products to U.S. municipal retail electric, retail gas, steam, chilled water, and combined utility systems where electric and/or gas is the predominant service (together, hereafter referred to as "municipal retail electric and gas"). These criteria are implemented under the rating framework established in cha…

Continue Reading

Sep. 27, 2018

S&P RFC Process Summary: U.S. Municipal Retail Electric And Gas Utilities: Methodologies And Assumptions

On Nov. 27, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed approach for assigning ratings and related credit products to U.S. municipal retail electric and gas utilities, including municipal retail electric utilities and electric distribution cooperatives, retail gas, steam and hot water heating, chilled water, and combined utility systems for which the before-menti…

Continue Reading

Sep. 27, 2018

S&P Advance Notice Of Proposed Criteria Change: Priority-Lien Tax Revenue Debt

S&P Global Ratings intends to publish within the next two months its revised criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited. The proposed revised criteria provide market participants with greater insight into the ratings…

Continue Reading

Sep. 24, 2018

America's Libor Alternative Is Gaining Traction on Wall Street.

- **Issuers have sold more than $9 billion of SOFR-linked debt**
- **Yet tepid futures trading shows new benchmark has a ways to go**

After some early struggles, America's Libor alternative appears to be finding its footing.

Since the debut of the Secured Overnight Financing Rate almost six months ago, futures have launched in Chicago, swaps are being cleared in London and about half-a-dozen issuers have sold debt linked to the nascent benchmark. Measured against the Alternative Reference Rates Committee's transition plan, efforts to develop SOFR as a viable replacement for the scandal-tainted London interbank offered rate appear to be proceeding ahead of schedule.

That's not to say it doesn't have a long way to go. Volumes and open interest in derivatives products indicate the market is still highly illiquid. And firms remain hesitant to commit resources to SOFR when there's a chance Libor's administrator and the panel banks that determine its setting could keep it alive past 2021, when global regulators intend to sound its death knell. Yet it's a far cry from April, when two weeks after SOFR's introduction the Federal Reserve Bank of New York disclosed it had made errors calculating the rate, an inauspicious start for a benchmark racing against time to gain traction.

Continue reading.

Bloomberg Markets

By Alex Harris

September 23, 2018, 10:01 PM MDT Updated on September 24, 2018, 9:13 AM MDT

Libor Replacement Carries Risk for States and Cities, Group Says.

- **Muni finance officers group issues bulletin on benchmark shift**
- **'There's a whole world of costs here,' says GFOA official**

The end of the London interbank offered rate after 2021 could have costly consequences for states and cities and managers need to start preparing, the Government Finance Officers Association said Thursday.

About $44 billion of floating-rate municipal bonds and an unknown amount of loans and interest-rate swaps entered into by states and cites are tied to the U.S. dollar Libor. Many of these securities and contracts will continue long after 2021, when Libor is phased out.

Municipalities will need to take inventory of debt and investments tied to Libor and hire lawyers and advisers to review contracts and renegotiate them before 2022, according to the GFOA. States and cities should also develop mechanisms to transfer Libor-based products to the Secured Overnight Financing Rate, Libor's replacement.

"There's a whole world of costs involved here that we haven't quite explored," said Emily Brock, federal liaison for the GFOA, which represents local government officials. "We don't understand the magnitude of it."

About $350 trillion of derivatives, loans, mortgages, commercial paper and other debt is tied to Libor, which was used for decades as a global floating-rate borrowing benchmark until rate-rigging scandals ruined the index's credibility. The Federal Reserve Bank of New York selected the Secured Overnight Financing Rate as Libor's recommended replacement.

Instead of a daily survey of about 20 large banks that estimate how much it would cost to borrow from each other without putting up collateral, SOFR is calculated using trades in the U.S. Treasury repurchase agreement market. S&P Global Ratings expects the SOFR rate to be lower than Libor because SOFR is secured by collateral.

It may not be feasible for banks and counterparties to amend trillions of dollars of derivative contracts before 2022, Loop Capital Markets said in March. Municipalities may be forced to terminate swap contracts, triggering millions of dollars in payments to banks or endure expensive and drawn-out legal battles.

In addition, switching outstanding tax-exempt floating-rate debt from Libor to a different index may cause them to be considered "reissued" under Internal Revenue Service guidelines, resulting in the debt becoming taxable, Loop said.

City managers that are well-versed in the transition to SOFR from Libor and actively preparing to amend documents will be viewed more favorable than those ignoring the issue or waiting until 2021 to deal with it, S&P Global Ratings said in a June comment.

"The often-restrictive procedures U.S. public finance issuers must follow to amend documents will make the three years go by very quickly," the rating company said.

Bloomberg Markets

By Martin Z Braun

September 20, 2018

— *With assistance by Danielle Moran*

Do Non-Municipal Exposures Help or Hurt a Bond Insurer?

The bond insurance industry was devastated in the financial crisis of 2008-2009. The failure of almost all of the bond insurers was not a result of the municipal bonds they insured but was instead largely tied to the non-municipal exposures such as asset-backed securities (ABS) and collateralized debt obligations (CDOs).

In this article, we examine why the insurers decided to insure these riskier assets and how non-municipal exposures changed bond insurers for the better.

Continue reading.

municipalbonds.com

by Joshua Hudson

Sep 19, 2018

Muni Bonds Are More Exciting Than You Think: An Activist Investor's Approach.

- **Not many people are aware that Flint's water crisis resulted from a fraudulent infrastructure bond.**
- **Justice is needed for those who have been financially and culturally harmed, and muni bonds are one of the best-kept secrets for getting us there.**

Let's face it—no one gets particularly excited about muni bonds. They are a portfolio bedrock for stability and liquidity, but they don't make for great cocktail conversation. The latest on your munis in Texas doesn't seem nearly as riveting as Tesla's last quarterly call.

But perhaps that's just because we're not paying enough attention. The "muni" in muni bonds is "municipality"—these are bonds issued by government entities that raise money for communities to do critical public works. Funding muni bonds isn't just pushing paper around to make a return—its enabling real projects in the real world.

Sometimes these projects are great for communities, like helping a city improve its water supply or building low-income housing. Other projects can harm a community or reinforce its questionable and inequitable practices.

Continue reading.

Forbes

by Morgan Simon

Sep 27, 2018

Muni Bonds Report Reinforces Stability.

Moody's Investors Service's recently released annual municipal bond market snapshot, *US Municipal Bond Defaults and Recoveries, 1970-2017*, with updates through 2017, reaffirms two hallmark benefits that muni bonds continue to offer. First, muni bonds continued to be highly rated in 2017, with upgrades narrowly outpacing downgrades for a second year running. Second, municipal bankruptcies and defaults remain extremely rare, even amidst headline-grabbing defaults by Puerto Rican entities.

The latest report also featured a significant update to Moody's entire dataset extending back to 1970. Using an algorithm, the authors were able to bring the historical credit ratings in line with Moody's 2010 Global Scale Recalibration, which affected most of the main default and performance metrics. According to Moody's, this recalculation has rendered key metrics more meaningful and offered greater explanatory power, enabling more powerful inferences regarding long-term trends.

To save you the hassle of poring through a 100-page document, we highlight three takeaways from this year's report.

Ongoing Stabilization in Muni Bonds

Nearly a decade after the Great Recession (2007-2009), the municipal bond sector is now stable and recovering, aided in part by growth and economic recovery in many regions of the U.S. For the second year running, muni bond rating upgrades have outweighed downgrades, resulting in a positive rating drift1 overall of 0.017 notches per credit by the end of 2017. "In fact," the authors observe, "rating drift has been mildly positive since late-2015." The trend had been generally negative since mid-2008, since reaching a low of -0.082 notches per credit in 2012. The report also found that greater stability was demonstrated by A-and-above rated munis when compared to like-rated global corporates.

Muni Bond Defaults and Bankruptcies Remain Rare

The five-year all-rated cumulative default rate (CDR) on municipal bonds throughout the study period (1970-2017) remained quite low, at just 0.09%, especially when compared to the 6.7% CDR of global corporates over the same time period. In this context, it is perhaps unsurprising that even in a year with a relatively elevated number of defaults, there were only ten in all of 2017 out of many thousands of issues.

The report observes that municipal defaults have been notably rare throughout the study period, even in times of financial stress, thanks to a defining feature of state and local governments: delinked revenues and expenditures. This enables municipalities to "kick the can down the road" and delay a crisis, even taking on more debt where corporate issuers might be unable to do so. Still, default volumes have grown, with 55 of the 113 defaults since 1970 occurring after 2007.

Muni Defaults Concentrated in Puerto Rico in 2017

Of the 10 defaults that occurred in 2017, entities associated with the Commonwealth of Puerto Rico accounted for seven. Due in large part to Puerto Rico's ongoing financial woes, 2017 set a U.S. dollar record for defaults: $31.15 billion, a 15% increase from 2016. The lion's share was concentrated in Puerto Rico, while the three non-Puerto Rico defaults accounted for a relatively tiny $85 million.

As the authors of the study observed, municipal credits can be strongly correlated with one another. Although a range of different entities in Puerto Rico defaulted in 2017, they were "tied together by overlapping debt burdens and shared economies and tax bases," which exacerbated the competition among the entities for revenues.

Moody's expects defaults in 2018 to be fewer in number and substantially smaller in amount, consisting of a few remaining speculative-rated Puerto Rico issuers with roughly $4.7 billion in debt outstanding.

Conclusion

Although it is still a struggle to obtain the same amount of timely disclosure from issuers of municipal bonds as one sees in other asset classes, the pure empirical evidence suggests that muni bonds continue to offer a fiscally sound vehicle for deriving an income stream free from federal and, in some cases, state taxes.

A total contrarian might say that this cannot, or will not, hold true for the long haul. But as best one can tell from Moody's study, there are no red flags flying over the industry. True, not all public sector projects succeed, but more conservative fiscal management coming out of the deep recession of 10 years ago seems to be the backstory. Ride the wave!

1 Rating drift measures the net average number of notches a credit will change over the study period. It is defined as the average upgraded notches per issuer minus the average downgraded notches per issuer.

Seeking Alpha

Sep. 27, 2018

For First Time, Columbus Letting Small Investors Buy Bonds Before the Big Dogs.

When the city of Columbus goes to market with $400 million in bonds in just over a week, Sweney Cartwright & Co. – a 10-person locally owned firm – will be selling them right alongside Bank of America, Merrill Lynch and Goldman Sachs & Co.

The city sells bonds every year, but for the first time, the process will have the feel of a crowdfunding campaign, under first-year Auditor Megan Kilgore.

Columbus has cut the lowest denomination of this offer to $1,000, from the usual $5,000, and is directly marketing the bonds to city residents as a way to support resurfacing roads, replacing aging water mains and building a new Linden Community Recreation Center.

"The city has never made an effort quite like what we're doing right now," Kilgore said.

Usually the first issue of a bond is "eaten up" by wealthy investors going after the tax-free income and by huge institutions like insurers and mutual funds, she said. This time, they have to wait a day.

"On Oct. 2, we're dedicating an entire day to just individual investors," she said.

To facilitate the transactions, Kilgore's office canvassed Columbus-area brokerages to find those serving the majority of local retail accounts. The brokerages also have to be dealers that can execute a bond transaction. Anyone with an account with one of the listed firms can buy on the day of the sale.

Bank of America and Goldman are still the senior managers, which are the main underwriters of the sale. But the first-day selling group adds atypical local offices, including Huntington Investment Co. and Sweney Cartwright. Usually they handle big-city bonds only on the secondary market.

The 82-year-old Sweney spun out of Huntington Bancshares Inc. in the Great Depression. It was the main underwriter of bonds to build St. John Arena at Ohio State University. But for more than a decade, it hasn't been involved in underwriting big institutional bond issues, President Frank Ingwersen said.

"We've got 10 people in our office here in Columbus and that's it," Ingwersen said. "As a small broker-dealer, it's tough to compete with a Goldman.

"For Megan to do this is kind of neat."

Find the full list of participating brokerages and other information on the sale here.

Anyone wanting to invest needs to set up an account before Oct. 2 to be ready. That's an opportunity to add business for the smaller firms.

"I really doubt Merrill Lynch or Goldman Sachs are going to open up an account for somebody from German Village or Clintonville who has (only) $1,000 to invest," Ingwersen said.

Columbus is among a handful of large U.S. cities to consistently land the highest credit rating of AAA from all three major ratings agencies, a feat largely attributed to longtime Auditor Hugh Dorrian, who retired last year.

Although a property tax levy secures the city's debt, the actual payments are made from income taxes and user fees, like water bills.

"You're pretty darn sure you're going to get paid back on a bond that's backed by taxes," Ingwersen said.

But for the same reason, that means Columbus pays lower interest on its bonds, so a $1,000 investment might bring something like $30 in interest a year. It's not a way to get rich.

"To be quite honest, you're not going to get much yield off these bonds," Kilgore said. "For someone like me, it's because I care about the projects. Social investing has grown hugely in the last few years."

Columbus residents have a greater sense of civic engagement than in many communities, she said, basing that on her observations in several years as a municipal consultant. Take for evidence voters who approved an income tax increase in the middle of the last recession, and Columbus Crew fans launching their movement to support local ownership to stop the team from moving to Austin, Texas.

In her nine months in office, Kilgore – a Dorrian protege – has focused on bringing more technology to the office and simplifying payments of city income tax.

A big goal: online filing of returns. The current system involves downloading a PDF with a balky fill-in-the-blank function and printing it out to file.

Columbus Business First

By Carrie Ghose – Staff reporter

Sep 21, 2018

Homeowners Who Live on the Coast are Sleepwalking Toward Climate Catastrophe.

About 41 million Americans live in areas that have a chance of flooding — and the number exposed to serious flooding is as much as 3.1 times higher than previous estimates.

Time is clearly not on our side. Sea levels are rising faster than predicted, and homeowners in particularly vulnerable areas, such as South Florida, could see their properties literally under water within their lifetimes. Relative sea levels there are roughly four inches higher now than in 1992; various projections, including by the Army Corps of Engineers, see rises in South Florida of 12 inches by 2030 and between 2 to 3 feet by 2060.

What's more, "rare events are going to become more common in the future strictly due to sea level rise," William Sweet, an oceanographer at the National Oceanic and Atmospheric Administration (NOAA), told The Guardian.

Continue reading.

CNN Wire

Sep. 22, 2018

The Week in Public Finance: Some States Are Less Prepared for a Recession Than a Decade Ago.

But according to two analyses, a majority of states have nearly enough savings to weather a downturn.

A decade after the worst financial crisis in modern American history, two separate analyses of government finances have found that most states are better prepared to weather the next recession.

S&P Global Ratings and Moody's Analytics have concluded that a majority of states have either adequate funds or almost enough to make it through the next recession without the massive layoffs and draconian cuts governments had to resort to following the 2008 global financial crisis.

But both firms also discovered a disturbing trend: A subset of states have continued to struggle and remain worse-off than they were a decade ago. "All else equal, this is going to result in a faster recovery [compared with 2008] among the states that are most prepared," says Dan White, a director at Moody's Analytics. "What's troubling, though, is we're seeing an increasing gap between the have and have-nots."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 21, 2018

U.S. Muni Bond Market Rises to $3.853 trillion in Second Quarter: Fed

NEW YORK (Reuters) – The size of the U.S. municipal bond market inched up to $3.853 trillion in the second quarter, from $3.851 trillion the quarter before, the Federal Reserve said in a report released on Thursday.

Households, or retail investors, held $1.625 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, down from $1.631 trillion in the first quarter, the Fed report said.

Property and casualty insurance companies took on $16.7 billion of munis in the second quarter, a rise from $14.1 billion in the previous quarter. Life insurance companies bought $4.6 billion, compared with $7.7 billion the prior quarter.

Exchange-traded funds bought $7.9 billion of muni funds compared with $2.8 billion in the first quarter.

Meanwhile, U.S. mutual funds' buying of municipal bonds dropped to $20.5 billion in the second quarter from $64.9 billion the first quarter.

U.S. banks continued to offload muni bonds in the second quarter. The financial institutions shed $40.3 billion, after selling $55.7 billion the previous quarter.

by Laila Kearney

SEPTEMBER 20, 2018

Reporting by Laila Kearney; Editing by Steve Orlofsky

Municipal-Bond Yields Hit Four-Year High as Cash Leaves Market.

- **Ten-year benchmark bonds jumped to 2.6 percent on Tuesday**
- **That's the highest the yield has been since February 2014**

A two-week slide in the price of state and local government securities has pushed yields to a more than four-year high as investors pull money from municipal bond funds and the flood of debt payments that boosted demand over the summer recedes.

The yield on 10-year benchmark bonds jumped to more than 2.6 percent Tuesday, the highest since February 2014. The securities have slid along with Treasuries after a slew of strong economic data reinforced speculation that the Federal Reserve will raise interest rates twice more this year.

"I would suggest that the Treasury market is leading the muni market at this point, slowly grinding higher as the Treasury market makes it difficult for the muni market to stabilize," said Michael Pietronico, chief executive officer of Miller Tabak Asset Management, which manages $1.1 billion of municipal debt in New York.

Mikhail Foux, head of municipal strategy at Barclays Plc, said that while the Treasury movement is probably the biggest driver of municipal yields right now, the anticipated uptick in new bond sales through the end of the year is figuring in as well. The supply-demand mismatch that led to positive returns recently is waning as the new debt issues are expected to outpace the amount of money investors receive from interest payments and bonds that are being paid off.

"A main reason for muni underperformance is that technicals are not as strong as they were," Foux said.

Buyers of state and local bonds are showing signs of caution, Foux said, with investors pulling money out of municipal mutual funds for the last two weeks. Such outflows typically occur when rising interest rates threaten the value of outstanding bonds, he said.

"It seems like a lot of investors are a little cautious right now and they don't want to put money to work even if they have money," Foux said.

Bloomberg Markets

By Danielle Moran

September 18, 2018, 11:30 AM MDT

Muni-Bond Market Headed for Longest Rout Since Trump's Election.

- **The market is headed for its fourth straight weekly drop**
- **'The trading environment this year has been quite brutal'**

U.S. state and local government bonds are headed for the fourth straight weekly loss as investors anticipate that the Federal Reserve will continue to raise interest rates, the market's longest losing streak since President Donald Trump's surprise victory in 2016.

The Bloomberg Barclay's municipal index has lost 0.82 percent since the start of the month, with 10-year bond yields hitting a four-year high. The rout tracks a selloff in the Treasury market, which has lost 1.12 percent this month as traders bet that the Fed will raise interest rates four more times by the end of 2019.

"Not just the past several weeks, but in general, the trading environment this year has been quite brutal," Barclays Plc analysts led by Mikhail Foux said in a note sent to clients Friday. "Munis have started the year rich outright and versus Treasuries, and most of the year has been a constant struggle for investors."

Municipals tend to be more volatile during the final months of the year, when debt sales typically pick up and investors no longer have as much money from bond payments to reinvest.

Barclays said it sees "very few positive signs for munis on the horizon."

Bloomberg Markets

By Danielle Moran and Martin Z Braun

September 21, 2018, 12:00 PM MDT

— With assistance by Liz McCormick

Guggenheim Restructuring Team Looks to Muni Debt, Derivatives.

- **Stress from pension obligations emerging on state, city level**
- **Guggenheim bought Millstein & Co. to create new advisory group**

Guggenheim Partners, which recently merged its restructuring business with Millstein & Co., sees opportunities in helping struggling local government creditors as budget impasses and pension liabilities put pressure on municipal bond issuers.

"We're starting to see some stress" on the state and local government side, driven by pension and other post-employment benefits and liabilities, which states are having "an impossible time funding," said Elizabeth Abrams, a senior managing director at Guggenheim, who came over from Millstein when the two advisory firms combined this month.

Pension liabilities in particular are an issue, she said, with the Federal Reserve estimating shortfalls for public pensions standing at around $1.8 trillion. Millstein was an adviser to Puerto Rico in the island's $74 billion bankruptcy.

Companies have also been taking on more debt relative to assets, while offering weaker loan safeguards to investors. As a result, one place the combined firm is looking for opportunities is reviewing companies' debt documents to advise them on how to position themselves in negotiations with lenders, Abrams said.

Guggenheim Securities, the investment banking arm of the New York-based company, on Monday closed on its takeover of the advisory firm founded in 2011 by Jim Millstein just after he counseled the U.S. Treasury during the Great Recession. The deal creates a combined restructuring group with around 50 employees in anticipation that the expansion of corporate credit will turn into a bust for over-indebted companies.

Restructurings have grown more complicated as distressed investors and companies have grown more likely to use credit derivatives, which can give them unexpected incentives.

'Smart Money'

"Smart money is attracted to the distressed space, and with that smart money, more creative structures," said Morgan Suckow, a senior managing director at Guggenheim. "That has changed our jobs, it has made our jobs a lot more interesting."

CDS have stirred controversy in debt markets recently, a decade after they played a key role in the 2008 financial crisis. Some hedge funds, as part of financing packages they extend to troubled companies, are pressing the companies to trigger or avert payouts on these derivatives, depending on what side of the trade the hedge funds are on. Critics say using CDS trades this way amounts to rigging an $11 trillion market.

Guggenheim's takeover of Millstein comes as other financial firms expand their restructuring offerings: Greenhill & Co. hired Rothschild & Co. veteran Neil Augustine in March to help run its North American turnaround business. Todd Snyder, formerly of Rothschild, opened up his own shop in February. Last August, UBS Group AG hired LLoyd Sprung from Evercore Partners LLC to build a new practice in the area. Lazard Ltd., Perella Weinberg Partners and AlixPartners are also among firms that have expanded their turnaround teams.

"We're expecting activity in the market to intensify," said Ronen Bojmel, who will lead the combined Guggenheim restructuring team.

Guggenheim's Chief Investment Officer Scott Minerd has projected a U.S. recession may come within the next two years. So has Millstein who has cited both trade wars heating up under President Donald Trump and a wall of corporate debt. They are echoing views across Wall Street that tighter fiscal and monetary policies will create problems for the world's biggest economy by 2020.

Millstein's firm has advised US Airways in its acquisition of American Airlines and Caesars Entertainment Corp. in its Chapter 11 proceedings. It has also worked on Venezuelan debt. Guggenheim's recent restructuring work includes Iconix Brand Group Inc., Payless Inc. and Intelsat SA.

Bloomberg Markets

By Katherine Doherty

September 19, 2018, 4:00 AM MDT

Pensions Are Shelling Out Billions in Fees -- and It's Not Paying Off

SPEED READ:

- According to a new report by the Pew Charitable Trusts, pension plans spend at least $2 billion a year on investment fees.
- Over the past decade, pension plans have devoted more of their assets to alternative investments, such as hedge and private equity funds.
- The shift means that pensions are more vulnerable to stock market swings and are paying far more in fees than ever.
- The report recommends pension plans to change their reporting requirements.

Public pension plans spend at least $2 billion a year on investment fees to high-priced Wall Street firms to boost their returns. But, according to a new report, it doesn't appear to be paying off.

The report, released Wednesday by the Pew Charitable Trusts, attributes the steep bill to the fact that more and more pension funds are putting money in alternative investments, such as hedge and private equity funds. Over the past decade, the average plan has gone from devoting about 11 percent of its assets to those types of investments to 26 percent.

The uptick is part of a larger trend over the past 30 years of pensions reducing their reliance on stable, fixed income investments like bonds in favor of more volatile — but potentially more lucrative –investments like stocks and alternatives. Since 1986, the latter two have gone from representing roughly 38 percent of pension portfolios to 75 percent in 2016.

The shift means that pensions are more vulnerable to the swings of the stock market and are also paying far more in fees than they ever were before. Pew's Director of Public Sector Retirement Systems Greg Mennis estimates that, in addition to the $2 billion in fees pension plans do report, Wall Street fund managers are pocketing an additional $3 billion to $4 billion in fees each year. That's because the majority of funds don't disclose so-called performance fees, which allow investment fund managers to get a cut of the investment earnings if their returns hit a certain target.

Meanwhile, pension plan performance has waned over the past decade. Among the 44 funds that the Pew report studied, the average rate of return during that period was 5.5 percent, and no plan's average investment return met its target of 7.5 percent. (In general, plans tracked closer to their investment return goals when the years around the 2008 financial crisis are excluded.)

Among the plans studied, Mennis says that the ones that had more experience investing in alternative assets tended to do better. For example, South Dakota's pension, which has for more than a decade been investing up to 20 percent of its portfolio in alternatives, averaged a 6.8 annual rate of return. But Indiana's public employees fund, which has ramped up its alternative investments rapidly over the past five years to account for roughly 40 percent of its assets, averaged 3.8 percent over the 10-year period.

Pension plans' reporting requirements "haven't kept pace with the risk" they've opened themselves up to, according to Pew. To rectify that, it recommends that all plans disclose their net return after fees and include costs like performance fees. The report also suggests pensions implement stress-test reporting, which throws different economic loss scenarios at pension plans to see how each could affect a plan's fiscal health and funded status.

The report notes that many plans are lowering their assumed rate of return to prepare for a future with lower annual earnings. Over just a two year period, 33 states have done so. Still, Pew estimates that most plans should prepare for an average annual investment return of somewhere near 6.5 percent. Some — Kentucky and South Dakota — are at or below that mark, but most still have higher expectations.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 26, 2018

CDFA Annual Volume Cap Report.

An Analysis of 2017 Private Activity Bond & Volume Cap Trends

Read the Report.

Released September 2018

U.S. States Are Showing Their Age: How Demographics Are Affecting Economic Outlooks.

The U.S. is facing an "old-age" crisis as national population growth becomes insufficient to balance the needs of aging baby boomers. In S&P Global Ratings' opinion, the national aging is affecting state economic output, with different parts of the country being more resilient than others.

Continue Reading

Sep. 25, 2018

S&P: When The Credit Cycle Turns, U.S. States May Be Tested In Unprecedented Ways

It has now been 10 years since the start of what former Federal Reserve Chairman Ben Bernanke called the "worst financial crisis in global history." What ensued in its wake was also the most severe economic downturn since the Great Depression. In retrospect, U.S. states weathered the historic turmoil remarkably well from a credit perspective.

Continue Reading

Sep. 17, 2018

The Increasing Cost Of Governmental Pensions: Discount Rate And Contribution Practices

As part of S&P Global Ratings' ongoing efforts to educate the market about our views on how unfunded pension liabilities could affect credit risks for state and local governments, this report focuses on how certain plan assumptions and methods may negatively influence future budgets.

Continue Reading

Sep. 27, 2018

Removing the Impediments to Infrastructure Investment.

Insurers are eager to provide hundreds of billions in capital. There are things governments can do to help that happen.

Nearly every aspect of our nation's infrastructure could benefit from restoration and modernization. If done the right way, these repairs and upgrades can create jobs, boost economic output and raise Americans' living standards.

But improving our infrastructure will be costly. By some estimates, simply updating and maintaining our transportation networks, communications systems, and social- and public-service facilities would cost more than $1 trillion. With limited sources of funding, every dollar will have to be used to maximum effect, including leveraging private financing for public works.

While the Trump administration and Congress have put forth proposals to address our infrastructure challenges at the federal level, much of the activity and heavy lifting happens at the state and local levels. With a few critical steps, state and local leaders can help unlock new levels of capital ripe for infrastructure investment.

RELATED
How Inclusive Contracting Can Produce the Infrastructure We Need The Road Funding Policy That Doesn’t Improve Roads Much Even When Teams Pay, Stadiums Still Aren’t Free for Cities For Muni Bond Sales, Brand Matters Navigating the Complex Landscape of P3s
The insurance industry, which includes companies like mine, is eager to invest hundreds of billions of dollars in infrastructure. These projects typically deliver stable, strong returns, often with less risk than some other investment options. A new toll road, utility plant or airport has a long shelf life. And it produces predictable revenue, with a built-in base of users that may increase over time.

Unfortunately, a few things hold back such investment. One is the patchwork of regulatory requirements that apply to infrastructure projects. States and local jurisdictions have a variety of different rules governing the use of public-private partnerships (P3s), and 17 states don’t allow P3s at all. Furthermore, projects must go through numerous regulatory reviews, which can be lengthy and duplicative. And political uncertainty may result in the plug being pulled on a project after capital has been expended but before it generates revenue.

A second factor inhibiting infrastructure investment by insurers is the complex and varied processes that state insurance commissioners use to determine valuation and risk in infrastructure projects. These methods often require insurers to maintain capital ratios that are more appropriate for riskier investments.

Finally, tax-policy uncertainty has the potential to restrain insurers’ investments. U.S. insurance companies account for about 10 percent of the holdings in the $3.8 trillion municipal bond market that supports many infrastructure improvements. These low-risk investments deliver solid returns due in part to the tax-free treatment of interest earned on them. The recent federal tax reform preserved this exemption. However, with federal budget deficits expected to top $1 trillion annually, there could be pressure to reverse course, which would effectively lower the return on bonds, reduce demand and raise borrowing costs for states and municipalities.

Fortunately, while maintaining our infrastructure requires collaboration and partnership at all levels of government, state and local policymakers are in a position to help remove these impediments. Here are a few key steps they can take:

First, states and municipalities should work together to create more harmony around P3 rules. A national set of rules is unlikely, but some states have developed effective policies that could be a model for others.

Second, governments at all levels should strive to limit duplication of regulatory reviews, which add time and raise costs for both taxpayers and private investors.

Third, the National Association of Insurance Commissioners can work with insurance companies to develop standards for evaluating the risk and quality of infrastructure investments while safeguarding policyholders.

And fourth, state and local leaders should keep up the pressure on Congress and the White House to preserve the tax exemption on municipal bond interest, ensuring that debt financing remains an affordable option for infrastructure projects.

Insurers stand ready to partner with states and municipalities, as well as the federal government, to modernize America's infrastructure. By removing some of the barriers that prevent insurers from increasing investment in infrastructure projects, policymakers at all levels of government can unleash new private capital to spur economic growth and bring much-needed benefits to communities across the country.

governing.com

By Larry Chadwick | Contributor
Senior managing director of government relations for TIAA

September 27, 2018

Statement by U.S. Conference of Mayors CEO & Executive Director Tom Cochran on FCC's Order Subordinating Local Property Rights.

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on today's FCC final Order on removing barriers to small cell deployment:

"The U.S. Conference of Mayors conveys its strongest opposition to today's final Order issued by the Federal Communications Commission. While The U.S. Conference of Mayors supports the nation's efforts to win the race to 5G, today's FCC action misapplies federal law to federalize local public property as part of its efforts to bestow upon a class of private companies special rights to access local rights-of-ways and public property.

"Despite efforts by local and state governments, including scores of commenters in the agency's docket, the Commission has embarked on an unprecedented federal intrusion into local (and state) government property rights that will have substantial and continuing adverse impacts on cities and their taxpayers, including reduced funding for essential local government services, and needlessly introduce increased risk of right-of-way and other public safety hazards.

"This wrongful intrusion threatens to slow down and undermine the FCC's own efforts to accelerate the deployment of new wireless infrastructure. In another action, the commission even seeks to rewrite and overturn decades-old compensation agreements between local (and state) governments and cable providers.

"Over the past year and in several instances, the federal government – the Administration, Congress and/or FCC – chose not to make deployment of small cells a federal priority in its own actions, be it new statutes and rules pertaining to federal property use rules, federal tax policy, federal spending and/or even federal spectrum revenue uses; yet, today's Commission actions seek to use a misapplication of federal power to confiscate local taxpayer property to this end. Mayors and other local and state government leaders rightly and strongly oppose these actions.

"The Conference believes this aggressive, and surely unlawful, intervention will prove counterproductive. The record on 4G deployments shows that the nation's mayors with other local and state officials partnered successfully with the private sector to build out the nation's fourth generation (4G) network, with the U.S. today accounting for roughly 40 percent of the world's 4G facilities. Regrettably, the Commission is choosing conflict over cooperation, and subordination over partnership.

"The Conference and its members now look to the federal courts to review and rectify this unlawful taking of local property, actions which we believe will compel local elected officials to subsidize, or "gift", local public property to a small, favored group of private businesses."

Counties, Cities Voice Concern Over FCC's Small Cell Ruling.

Washington – The National Association of Counties and the National League of Cities today released the following statement regarding the Federal Communications Commission's (FCC) vote on the Declaratory Ruling and Third Report and Order on state and local governance of small cell wireless infrastructure deployment.

"Cities and counties are strongly committed to the timely and successful deployment of 5G facilities and services throughout the nation, just as we led and supported public and private partnerships that resulted in the successful introduction and expansion of 4G infrastructure and services.

"Today's vote, however, overlooks significant concerns from the nation's cities and counties. Over 100 local governments from 22 states filed comments in opposition to the proposed ruling during the FCC's comment period.

"The FCC's impractical actions will significantly impede local governments' ability to serve as trustees of public property, safety and well-being. The decision will transfer significant local public resources to private companies, without securing any guarantee of public benefit in return.

"Counties and cities are the stewards of substantial amounts of public rights-of-way, which many telecommunications providers use to construct their own communications networks. By narrowing the window and resources for evaluating small cell applications, the FCC is effectively hindering our ability to fulfill public health and safety responsibilities during the construction and modification of broadcasting facilities.

"Local governments share the FCC's goal of ensuring affordable broadband access for every American, regardless of their income level or address. However, today's vote applies a one-size-fi-s-all approach to broadband deployment that simply will not work in the vast majority of cities and counties across the country.

"With this ruling, the FCC is overlooking its overall goals to 'build on the commonsense reforms adopted in state legislatures and town councils across the country.'

"Local governments share the FCC's urgency; however, this ruling promises to force local governments to rubber-stamp small cell applications or face crippling legal recourse from providers racing to corner the 5G communications market.

"We urge the FCC to delay the rule, and we plan to support local effort to mitigate its impacts."

September 26, 2018

FCC Sets Rules for 5G Infrastructure, Limiting State and Local Control.

The new industry-backed regulations are likely to attract lawsuits from state and local government *groups that worry they will cost them revenue, make it easier for internet providers to sue them and do little to address the digital divide.*

The Federal Communications Commission (FCC) approved sweeping regulations on Wednesday for 5G wireless infrastructure, significantly curtailing the authority of states and localities.

The industry-backed declaratory ruling includes several preemption provisions aimed at accelerating deployment of 5G networks that are expected to offer higher internet speeds. It prompted immediate pushback from a wide-range of public-sector association groups and is expected to face legal challenges.

“The ultimate result from this is going to significantly and negatively impact local governments’ ability to protect and serve public property, safety and welfare,” said the National Association of Counties’ (NACo) Arthur Scott.

The federal regulations carry major ramifications, particularly given the buildout of 5G networks that’s ramping up or is already underway in many larger cities.

Underpinning the networks is wireline fiber supporting “small cell” nodes, typically antennas mounted on street poles or other public infrastructure. Small cells are akin to WiFi-networks in that their coverage is limited, typically 300 to 500 feet, requiring providers to deploy hundreds of the devices to cover relatively small areas.

Time Limits

One of the more controversial provisions of the order establishes “shot clock” time limits for jurisdictions to process applications for mounting small cells on public infrastructure. Installations on existing infrastructure must be processed within 60 days, while requests to build new poles need to be processed within 90 days.

The shot clock resets if a company submits an incomplete application and a government notifies them of the issue within 10 days. Under the new order, failing to act within the specified time limits constitutes a presumptive prohibition of services, giving companies further ammunition to take governments to court.

According to NACo, applications were generally taking about 120 days to process. Scott is concerned that many local governments lack the resources to process them within the new, tighter deadlines and would need to hire additional staff.

“[The ruling] forces local governments to make a decision between rubber stamping applications or facing crippling litigation with these providers in court,” he says.

Under the FCC ruling, batch applications of multiple requests for the same type of facilities filed simultaneously are subject to the same deadlines. Greg Wilkinson, the city administrator for Yuma, Ariz., says his city would have no problem processing a few applications quickly but receiving a hundred or more at once could pose challenges. For instance, some companies seek to affix old, bulky equipment to poles, potentially leading to safety concerns or violations of the Americans with Disabilities Act if they obstruct sidewalks.

“You have to look at location by location,” he says. “You can’t just give them blanket approval to deploy everywhere.”

Fee Guidelines

The FCC order also effectively limits what local governments can charge — $500 for an initial application fee covering up to five small cells and $270 for an annual right-of-way access fee per small cell — both considerably lower than what cities have typically charged. Localities could still levy higher fees, but if a wireless provider sued, local officials would need to demonstrate the fees are a "reasonable approximation" of costs incurred. In larger jurisdictions where fees are higher, the FCC ruling could amount to seven-figure losses in unrealized revenues.

Part of the FCC's motivation for the lower fees is to enable providers to bring high-speed internet to rural and unserved areas of the country.

Commissioner Brendan Carr recounted at Wednesday's meeting that he heard from officials in unserved communities who worried delays and higher small cell fees levied in big cities would effectively hinder deployment to their jurisdictions.

"Cutting these costs changes the prospects for communities that might otherwise get left behind," he said.

But state and local officials argue that lower fees will make little difference in bridging the digital divide unless there is adequate market demand making it economically feasible for companies to deploy. Furthermore, the ruling lacks any requirements for telecommunication companies to provide service to unserved and underserved areas.

Some cities fear that the fee recommendations wouldn't cover their costs. Philadelphia, for instance, provided estimates to Governing tallying labor costs for all approvals and field inspections that amounted to $800 per small cell node.

"The city will have incurred disproportionate, unrecoverable costs and lost all its leverage to incentivize deployment in a manner that ensures a complete citywide deployment and reduces the digital divide," said Michael Carroll, deputy managing director of the Office of Transportation and Infrastructure Systems, of the ruling.

Some telecoms complain that cities use aesthetic concerns about the small cells as a way to delay wireless infrastructure projects. The FCC order doesn't prohibit localities from outlining their own aesthetic requirements, provided they are "reasonable" and "no more burdensome than those applied to other types of infrastructure deployments."

The vast majority of state and local officials filing comments opposed the FCC rules. One of the few expressing support was Chairman Jeffrey Bohm of the St. Clair County (Mich.) Board of Commissioners.

"By making small cell deployments less expensive, the FCC will send a clear message that all communities, regardless of size, should share in the benefits of this crucial new technology," wrote Bohm.

The order was modeled largely after similar laws passed in 20 states that preempt local authority to varying degrees. They've been mostly adopted in Republican-controlled states, usually passing by wide margins.

Although the FCC's fee levels and regulatory guidelines mirror those passed by states, the ruling would preempt any existing legislation not meeting its requirements. In response, the National Conference of State Legislatures and the National Governors Association filed a joint statement opposing the ruling.

"Not only will these 20 states be affected, but it also ties the hands of any other state that is looking to ensure inclusive and equitable access to high-speed internet services to residents," the groups wrote.

What Happens Next?

Many larger localities, such as Austin, Boston and San Jose, have already entered into agreements with telecoms in states where they're permitted to do so. Attorneys for the municipal advocacy group Next Century Cities believe it is unlikely that telecom providers will pursue litigation seeking to void existing agreements. While the ruling doesn't explicitly exempt preexisting agreements or prohibit local governments from negotiating future agreements, it does significantly reduce their leverage in these deals.

The ruling is expected to face multiple legal challenges over the FCC's regulatory authority.

One group likely to lead litigation on the matter is the Smart Communities and Special Districts Coalition, which is made up of localities and association groups in 11 states and the District of Columbia. Gerard Lavery Lederer, an attorney with Best Best & Krieger representing the group, told Governing prior to the meeting that they were considering litigation.

"We're committed to defending local governments rights wherever we have to do it, including the courts," he said.

Blair Levin, a former FCC official, said that if the rules aren't overturned, a second wave of litigation will ensue over the meaning of several phrases used to define different provisions, such as fees that are a "reasonable approximation" of localities' costs.

Next Century Cities has issued guidance for localities, recommending they quickly move to enact zoning, installation requirements and any other regulations. Developing pre-approved design and aesthetic requirements, it also noted, could be particularly beneficial in processing applications faster and defending legal challenges.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 26, 2018

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governing.com

By Larry Chadwick | Contributor
Senior managing director of government relations for TIAA

September 27, 2018

Which States Are Voting on Transportation Funding This Year?

Lawmakers have long wrestled with how to raise money to fix roads and other infrastructure. In four states this November, voters will have a chance to weigh in.

SPEED READ:

- Voters in four states — California, Colorado, Missouri and Utah — face ballot measures this year that could affect gas taxes or transportation funding.
- California voters may roll back a gas tax that's only a year old, while Missouri looks poised to raise its fuel tax for the first time in 22 years. Meanwhile, Colorado voters face a confusing trio of conflicting ballot measures, and Utah could become only the second state to use gas tax money to fund schools.

Gas taxes may be the most practical way to raise money for transportation, but they can also be politically perilous. That's why transportation advocates are closely watching four statewide ballot measures this November that would affect fuel taxes or transportation funding.

The questions that voters in California, Colorado, Missouri and Utah face are all the more contentious because they deal directly with issues that have stymied lawmakers for months, and in most cases, years.

It is unusual to see as many statewide ballot measures on transportation funding; local measures are much more common. But these four statewide transportation questions could be in reaction to a growing willingness by state lawmakers to raise taxes or find other sources of new money to improve roads and other infrastructure. Over the last six years, 31 states have increased revenues for transportation, according to Joung Lee, the policy director for the American Association of State Highway and Transportation Officials.

Continue reading.

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BY DANIEL C. VOCK | SEPTEMBER 25, 2018

Fitch Ratings: U.S. Colleges Turning to P3s More Frequently.

Fitch Ratings-New York-10 September 2018: Strains on revenue are leading more U.S. colleges and universities to seek extra help in the form of public private partnerships, according to Fitch Ratings in a new report.

Colleges and universities are finding P3s increasingly more attractive in addressing campus infrastructure and physical plant needs in an effort to keep demand high for their institutions while retaining both students and staff. Use of P3s could prove to be pivotal in certain parts of the country where enrollment in colleges has dropped off considerably.

'The number of high school graduates in the Northeast and Midwest has declined over the last decade,' said Director Emily Wadhwani. 'Additionally, recent private institution closures and consolidation among some public intuitions are showing that demand can vary greatly by market and by institution.'

Digging deeper, the number of high school graduates is expected to plateau over the next decade, with schools in the Northeast and Midwest likely to see more declines. As such, 'a university's strategy to address its housing and other auxiliary needs must be executed in the context of an increasingly competitive and revenue-strained environment,' said Senior Director Seth Lehman.

P3s for financing around student housing, parking and other auxiliary assets have become more commonplace in recent years, but they do come with cost risks that could prove to be more difficult to control over time. 'Adding and upgrading amenities to keep up facility attractiveness also adds to cost risks,' said Lehman. Completion risk also remains an important component in evaluating higher education P3s, particularly when there is no backstop support from the college or university itself.

'Higher Education Demand-Based Project Financings' is available at www.fitchratings.com.

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Fitch Ratings: Leverage Isn't One-Size Fits All for Revenue-Supported Bonds.

Fitch Ratings-New York-11 September 2018: The stronger the business model a revenue-supported enterprise in U.S. public finance has, the more leverage it can carry without constraining its credit rating, according to Fitch Ratings in a new report.

Financial leverage for U.S. revenue supported public finance sectors varies widely and thus needs to be viewed through risks specific to each sector. Fitch's analysis shows large scale public universities and public utilities to have the strongest business models due largely to independent pricing powers and very strong demand characteristics. Conversely, public safety net hospitals and not-for-profit charter schools tend to have the weakest profiles.

In other words, a public safety net hospital without taxing authority would need to carry substantially less debt in order to reach a rating similar to that of a first tier public university.

Despite the attention it has received over the last several months, unfunded pension liabilities are not generally a pre-eminent driver of ratings. "The municipal market has been sharply focused on pensions in state and local government ratings but pensions are also part of the risk profile of public enterprises,' said Jessalynn Moro, Fitch's Head of U.S. Public Finance. 'Pensions' impact on ratings varies with the strength of the enterprise business model.'

Further evidence of this came in Fitch's recently completed not-for-profit healthcare ratings review following the release of its final criteria at the start of 2018. Of the 135 providers Fitch rates, only three significant rating changes were a direct result of large unfunded pension liabilities. One notable recent exception was Spartanburg Regional Health Services (SRHS) that Fitch recently downgraded to 'BBB' citing high overall leverage including a large unfunded pension liability reported in its most recent financial statements.

Fitch notes that the Spartanburg rating action has little relevance to ratings in the public higher education sector with its stronger business model. If SRHS had a business model like that of a public university with strong revenue defensibility and operating risk, it would have a much higher rating.

Fitch began its revenue sector criteria revisions last summer in an effort to improve the consistency and transparency of its ratings. Fitch's next sector-specific revenue supported exposure draft will be for Higher Education next month. See 'Higher Education Next in Revenue Sector Criteria Revisions' for more information. Fitch is also currently soliciting market feedback for its Public Power exposure draft published in June.

'Leverage, Ratings and the Relevance of Unfunded Pension Liability' is available here.

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[Fitch U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: Implementation Complete.]

Fitch Ratings completed the initial implementation of its U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria as of July 9, 2018. We reviewed 125 existing issuers, or just under one-half of our total acute portfolio.

Read Full Report.

S&P Looking Forward: The Application Of The Discount Rate In Funding U.S. Government Pensions.

Public pension system costs can have a significant impact on U.S. governments' credit quality. However, the magnitude of these costs can be quantified in different ways.

Continue Reading

Sep. 13, 2018

Muni Bond Issuers Reach Out to Individual Investors (and Their Advisors).

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings.

On the heels of tax reform, the elimination of advance refundings, and record new-issuance municipal volume at the end of 2017, the municipal market was expecting new issuance to contract in 2018.

In spite of predictions, new-issuance volume in 2018 is just slightly behind 2017's pace. And as we look toward the end of the year, we may see more state and local government issuers coming to market to finance expanding infrastructure needs as well as refund outstanding high coupon debt — so long as long-term interest rates don't spike.

The chance of a spike, however, appears remote, as the municipal yield curve has been toying with inversion — where short-term rates are higher than long-term rates — since May 2018.

With new-issuance volume remaining robust, state and local government issuers are looking for more active participation by individual investors. And this spells opportunity for the fee-based advisor to take a more active role in new-issue underwritings for investor clients.

Practically all municipal market participants see the benefit of individual investors. State and local governments want individual investors because they tend to buy and hold their investments, supporting an issuer's long-term goals for raising capital. Likewise, these issuers see value in having local investors have a stake in local projects. Institutional investors see the benefit to individual investors as a ready market for secondary market support and liquidity.

As tax reform has placed limits on an individual filer's tax-saving deductions, municipal bonds have become one of the few reliable investments for reducing income taxes. While individual investors have yet to prepare tax returns for 2018 and realize the full consequences of tax reform, the municipal market has seen yields on issues from states with high income taxes like New York, New Jersey, California, Oregon, Minnesota and Vermont compress. Compression is a consequence of investor demand resulting from the implementation of the tax overhaul.

States, local governments and schools are expanding their outreach to individuals with the intent of stimulating investor demand. Dedicated bond-buying websites, online "road shows," conference calls with governors and state treasurers, and internet and radio advertising are all promotional means used by municipal bond issuers to attract individual investors and the fee-based advisors who serve them.

Some issuers have even attempted to reduce the minimum investment in a municipal bond to attract more individual investors. However, this notion hasn't received much traction, as such "mini-bonds" offer limited liquidity and inefficient recordkeeping. Municipal bonds are typically sold in $5,000 denominations, but the average trade in July 2018 was approximately $300,000. The $5,000 minimum generally steers away small investors who may not be able to reap the full benefit of the preferential tax exemption, keeping the market efficient.

The large volume of new issuance combined with the issuers' express interest in having individual investors engaged have created an opportunity for fee-based advisors to both put in orders at the point of new issuance and receive confirmations of allocations.

For some of the largest and most liquid issues on the Street, issuers are giving priority to individual investors and their fee-based advisors. This means advisors and their clients are receiving access to opportunities that are traditionally available only to institutional investors. Advisors now have the tables tilted in their direction for some municipal issues. Recent issues from Vermont, Massachusetts (including the recent Commonwealth Water Trust Green Bonds), California, the City of New York, NYC's Municipal Water Finance Authority, and the NYC Transitional Finance Authority have all sold bonds this summer offering priority to advisors and their clients.

Issuers have also been binding their underwriters to rules that give preference to individual investors, meaning individual investor orders have priority above institutional orders. Most importantly, the pricing is the same for individual and institutional investors.

This encouraging trend means a fee-based advisor who has a trading account with the lead manager, co-manager or selling group member can enter orders with a much greater chance of allocation, as these issuer-imposed guardrails prevent the book-running lead manager from violating the issuer's intent to give priority to individual investors.

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings designed to give preferential outreach to individual investors. New issues favoring individual investors are likely to be plentiful through December, presenting abundant opportunities for tax-efficient investments.

Tom Lockard, managing director and head of investment banking at 280 CapMarkets, joined as a co-founder knowing the power of a broker-dealer combined with distribution reach for public finance opportunities. Prior to 280 CapMarkets, he worked at Fundrise, a pioneering fintech company specializing in commercial real estate.

Previously, Tom was a managing director at Stone & Youngberg and a member of the company's *executive committee and board of directors. Over his 30-year career there, he structured more than 500 municipal bond issues representing more than $6 billion.*

Lockard earned degrees from the University of Pennsylvania, Wharton School, Claremont Graduate University and Stanford University.

ThinkAdvisor

By Tom Lockard | September 12, 2018 at 03:35 PM

Innovative Financing for a 21st Century Infrastructure.

BDA Hosted Roundtable Early 2019

As the 116th Congress kicks off in early 2019, attention will turn to major policy initiatives that were unfinished in the previous session and at the top of this priority list will be infrastructure.

The BDA is in the process of planning a D.C. infrastructure event in early 2019 to further its position as a thought leader on infrastructure finance – from a Main Street perspective. As key details emerge such as date and location in Washington, D.C. and featured speakers, the BDA will provide updates.

Background

The House Transportation and Infrastructure Committee released a discussion draft this summer, outlining at a very high-level, priorities for a future package. A focus of the draft was innovative financing mechanisms, including public-private-partnerships. The BDA views this as an opportunity to advance member priorities: PAB's, AR and continued protection of tax-exempt municipal bonds.

This event will not only help drive the narrative for the need of a sweeping infrastructure overhaul, but allow the BDA to position itself as a policy expert for this discussion.

Continue reading.

Bond Dealers of America

September 10, 2018

1.1 Trillion Reasons to Remember State and Local Bond Obligations.

We can all agree that we want our states and cities to avoid the painful lessons collectively learned from the recent bankruptcies in places like Detroit, Puerto Rico and the California cities of Stockton and San Bernardino.

While unfunded pension liabilities in those locations received a lion's share of the news coverage, one topic that has unfortunately flown under the radar is the $1.1 trillion in bonded obligations issued across the 50 states and within their component units of government.

Our new study, State Bonded Obligations 2018, provides a new look on the way states have accumulated bonded debt and other bonded obligations. As usual, the 50 laboratories of democracy provide us with a wide range of policy approaches — and the best and worst outcomes are listed in the table below.

The good news from our report is that Nebraska, Indiana and Wyoming all carry far less than $1,000 in bonded obligations per resident, and fiscally responsible states like Florida and Tennessee place just behind.

Today, 11 states prohibit or place significant barriers to the issuance of general obligation bonds, which are supported with the general taxing power of the state and secured with the full faith and credit of the state.

On the other hand, states like Alaska and Connecticut have more than $10,000 of bonded obligations for every man, woman and child in their states. Rhode Island, Massachusetts and Hawaii, no strangers to state and municipal financial challenges, round out the bottom of the list.

While those levels of bonded obligations should be concerning, states structure their obligations in very different ways. For instance, Connecticut issued 62 percent of their total bonds as general obligation bonds. Alaska, on the other hand, issued 69 percent of their total bonds as component bonds.

This means that a greater portion of Alaska's bond obligations can likely be restructured without encumbering taxpayers. Additionally, Alaska also does a far better job of maintaining a substantial budget stabilization of $4.7 billion, and their Permanent Fund, about $88,000 per capita ($65 billion), safeguards the state from a potential fiscal crisis from its large total of bonded obligations.

Several key lessons emerge from our research. First and foremost, it really brings us back again to finance or accounting 101, as it is essential to balance assets with liabilities. State budget stabilization funds are an important tool and can be improved by matching them to the state's revenue volatility to prepare for the next economic downturn.

Furthermore, states should attempt to pay down debt during good economic times to maintain future flexibility when economic conditions worsen. This has the added benefit of creating the flexibility to issue bonds during periods of very low interest rates, such as recessions.

Lastly, states should utilize revenue bonds that are funded with user fees. States that pursued these strategies tended to have less damaging bonded obligations, particularly relative to their assets. To see how your state ranks, check the State Profiles section of State Bonded Obligations, 2018.

There are countless aspects of the American experiment worth celebrating, but few have been so beneficial as the decentralized structure of our federalist system. States can indeed learn from mistakes in highly publicized bankruptcies.

While most of the national media attention has been devoted to unfunded state pensions, where the magnitude of liabilities is staggering, we have $1.1 trillion reasons to remember the massive bonded obligations that are carried on the books state and local governments across America.

THE HILL

BY JONATHAN WILLIAMS AND THURSTON POWERS, OPINION CONTRIBUTORS

09/15/18

Jonathan Williams is chief economist at the American Legislative Exchange Council (ALEC), an organization of state legislators and private sector representatives who draft and share model state-level legislation for distribution among state governments. He's also vice president of its Center for State Fiscal Reform. Thurston Powers is a research manager at the ALEC Center for State Fiscal Reform.

Can Booming Green Bonds Finance Sustainable Cities?

In this three-part blog series "Making Vanilla Green or Making Green Vanilla," EDF+Business Sustainable Finance Manager Jake Hiller, and Clean Energy and Sustainable Finance Intern Gabriel Malek unpack how an environmental advocacy group like EDF could best use its resources and expertise to drive impact in the fixed income market. This research is informed by interviews conducted with Eric Glass, Senior Portfolio Manager at AllianceBernstein and founding member of the Municipal Impact Investment Policy Group; Rob Fernandez, Director of ESG Research at Breckinridge Capital; and Navjeet Bal, General Counsel of Social Finance Inc. and former Commissioner of Revenue of the Commonwealth of Massachusetts.

Over the past few years, experts in socially responsible investing have become increasingly intrigued by green bonds, financial vehicles designed to kickstart environmental projects. In 2016, both EDF and the *Stanford Social Innovation Review* examined the strengths and challenges of the growing green bond market and outlined how this novel financial tool could help channel capital to sustainable development initiatives. Since the publication of these articles, the green bond market has expanded dramatically. In the US alone, the value of green bonds between 2016 and 2017 doubled to $48 billion. What began in 2008 with an experimental, World Bank-issued "green" labelled bond has since developed into a $155 billion market that is projected to expand this year.

Given this boom, a renewed examination of the relationship between environmental advocacy organizations, investors, and the fixed income space — both green and vanilla — seems appropriate. EDF has used its clout to influence private equity strategies but has yet to similarly influence the bond world. As it works to shift financial markets, EDF and similar nonprofits must understand fixed income's environmental gaps that could hinder sustainable progress. Moreover, advocacy groups must focus on fixed income as they rely on municipalities, which depend on bonds, to catalyze investment in coastal resilience. This three-part blog series attempts to highlight some of these gaps and discuss potential actions that environmental advocacy groups could take to ameliorate current problems.

Specifically, this series asks whether helping further grow the green bond market or improving environmental reporting in the standard, vanilla bond market would more effectively drive sustainable impact. Although green bonds have taken off in the last decade, they still account for only a sliver of the total fixed income space, representing approximately 1 percent of the worldwide bond market and .06 percent of the US bond market. Could green bonds, despite being only a tiny portion of fixed income, generate substantive change? And ultimately, what should environmental nonprofits do — make green vanilla or vanilla green?

Growing the Green Bond Market

Advocacy groups could benefit from capitalizing on the current buzz surrounding the green bond market.

“We participate in a number of green bonds because they receive a lot of attention and support,” said Rob Fernandez, Director of ESG Research at Breckinridge Capital. “They enhance an issuer’s reputation by highlighting the issuer’s sustainability. Issuing a green bond also expands an issuer’s investor base; it can bring in normal fixed income investors as well as ESG investors.”

Additionally, green bonds have more rigorous environmental disclosure requirements than vanilla bonds.

“We like green bonds because of the transparent use of proceeds,” Fernandez explained. “Issuers can comply with the green bond principles and release impact reports annually. These reports give us information to share with our clients to show them how their money is going towards worthwhile projects.”

Still, some investors fear that these marketing advantages can result in a green-washing effect, allowing unsustainable bonds to pass as environmentally friendly.

“The problem I have is that there’s no narrative behind the green bond certification,” noted Eric Glass, Senior Portfolio Manager at AllianceBernstein and founding member of the Municipal Impact Investment Policy Group. “Why was bond x certified? The system is too much of a black box. I want to have the raw data in my hands and decide for myself whether or not I think a certain project is environmentally beneficial. Some investors are fine with the third party assessments and don’t care who analyzes a bond so long as it’s labelled green. I care. I think we need more open source data.”

Others, however, are less convinced that green-washing is a problem.

“I would push back on that criticism,” countered Navjeet Bal, General Counsel of Social Finance Inc. and former Commissioner of Revenue of the Commonwealth of Massachusetts. “For decades, the government has always done this stuff, whether it’s supplying clean drinking water or open space preservation.”

In Bal’s opinion, just because green bond-backed projects are not new, does not mean they do not benefit the environment.

Whether or not green bonds offer novel advantages remains unclear. At this point, labelling bonds “green” may be more of a branding strategy than a tool to bridge the financing gap for sustainable infrastructure projects. Still, just because green bonds have not yet brought new types of environmental projects to market does not mean they lack the potential to do so. Advocacy organizations could perhaps harness green bond enthusiasm to effect more substantive, innovative change.

Lowering the Cost of Capital

Regardless of their stance on green-washing, investors across the industry agree that green bonds have yet to lower the cost of capital for bond issuers. Until labelling a bond “green” actually reduces interest rates for debt issuers, green bonds will struggle to help bring new environmental projects to market.

“Right now, it’s a buyers’ market, so there is no pricing benefit for issuers who produce green bonds,” Glass noted.

Although the green bond market has boomed in recent years, demand might still be too limited to lower the cost of capital. Glass believes that once environmental data becomes more robust, investor demand will reach an impactful threshold.

“Oversubscription is what allows bankers to lower the yield. But if an issuer doesn’t provide enough relevant information, there won’t be any sort of oversubscription. There needs to be greater transparency before enough investors are interested in green bonds to lower the cost of capital.”

An organization like EDF could work with bond issuers to improve environmental reporting. This strategy could increase the number of investors interested in green bonds, ultimately allowing bond issuers to release debt at a lower cost.

Others experts, however, feel that the problem surrounding cost of capital lies in US financial markets more broadly.

“The reality is that interest rates have been so low that it’s hard to really detect if there has been a change in the cost of capital,” Bal remarked.

Perhaps, then, green bonds can impact cost of capital more thoroughly than experts currently believe. Green bonds’ effects will become clearer when interest rates rise.

Takeaways

Whether or not green bonds can transform the fixed income market to compel investors to drive capital towards sustainable development remains unclear. Green bonds have struggled to diminish the cost of capital for issuers, leading some experts to believe these relatively new bonds contribute to greenwashing.

Still, despite these potential downsides, green bonds have drawn unprecedented interest in climate finance. Environmental advocacy groups may want to grow the green bond market as a stepping stone towards larger ambitions. If intrigue swells, nonprofits may be able to convince investors to reimagine more traditional aspects of the fixed income market using an environmental lens. In the next installment of this series, we will discuss potential long-term next steps EDF and its counterparts could take to influence the standard, vanilla bond space.

EDF + Business

By: Jake Hiller / Thu, Sep 13

Co-author Gabriel Malek is a junior at Yale University, where he leads the Dwight Hall Socially Responsible Investment Fund and the Yale Roosevelt Institute, the school’s only undergraduate-run public policy think tank. You can contact him at gabriel.malek@yale.edu.

[New Data on City Finances Show True Realities of Nation’s Economy.]()

WASHINGTON — September 13, 2018 — Despite strong national economic growth and almost full employment, a new report from the National League of Cities (NLC) released today indicates that cities are still recovering from the Great Recession and shouldering the country’s residual economic burden. The 33rd annual City Fiscal Conditions report, based on a survey of 341 city finance officers, found that while city fiscal health is not yet declining, growth is slowing and echoing cautionary signals from previous economic downturns.

Numerous factors indicate a more complex economic reality in cities across America as slowing housing markets, stagnating wages and the impact of the 2017 federal tax reform legislation influence the outlook of many city finance officials. In FY 2017, 10 years after the Great Recession, local revenues grew only 1.25 percent over the previous year compared to expenditures, which grew 2.16 percent.

Continue reading.

National League of Cities

September 13, 2018

As Economy Booms, U.S. Cities Report Slowing Revenue Growth.

- **Property, sales tax revenue projected to stagnate in 2018**
- **Results echo cautionary signals from previous downturns**

U.S. cities are seeing the growth of their tax collections slow, suggesting local governments' gains from the more than nine-year economic expansion are diminishing even as they face pressure to spend more on wages, pensions and infrastructure, according to an annual survey by the National League of Cities.

City general-fund revenues are projected to stagnate in 2018 after increasing 1.25 percent in 2017, as property, sales and income tax collections slow, the group found. The share of cities reporting that they're more able to meet their financial obligations than they were a year ago rose slightly to 73 percent, after slipping to 69 percent last year, the lowest since 2012, when many were still contending with some of the fiscal aftermath of the housing crash and recession.

"Although fiscal health is not yet declining, these conditions echo several cautionary signals from previous economic downturns," according to the report, which is based on results from 341 cities.

The findings are surprising, given the strength of the U.S. economy and the housing market that provides a big share of cities' tax collections. Consumer confidence is near an 18-year high and the nation's gross domestic product expanded at its fastest clip in four years during the second quarter. On Wednesday, the Census Bureau reported median household income rose 1.8 percent in 2017, when adjusted for inflation.

The biggest drags on municipal finances stem from rising wages and the need to rehabilitate aging infrastructure: Ninety-four percent of officials reported that wages rose and 86 percent reported the cost of infrastructure increased. Spending growth continues to outpace revenue growth, according to the survey.

Thirty-five percent of respondents said Congress's narrowing of cities ability to refinance tax-exempt bonds has already had a negative impact and 61 percent expect it will harm cities' future fiscal health.

Growth in property-tax collections, typically the biggest source of municipal revenue, is anticipated to slow to less than 1 percent in 2018 from 2.6 percent the prior year. The survey projected stagnant sales-tax growth, though that may change because of the U.S. Supreme Court decision that expands states' ability to tax online retailers.

Common Action

The previous inability to collect state and local sales tax on Internet retailers that didn't have a fiscal presence in a state cost state and local governments an estimated $26 billion in foregone tax revenue in 2015, according to the National Conference of State Legislatures and the International Council of Shopping Centers.

Loath to raise property taxes or restrained by law from doing so, the most common action taken to boost city revenue is to increase fees. About two in five finance officials said their city raised fee levels, while one in five reported increasing the number of fees that are applied to services.

"In some places, adding new fees may not be a politically feasible policy option, while in others the city may have already levied fees on all applicable services," the report said.

The National League of Cities survey points up regional and demographic differences, affecting the fiscal health of municipalities. Finance officers in southern cities are more likely to report being able to meet fiscal needs as do larger cities, which have been experiencing faster economic growth and expanding tax bases.

Bloomberg Economics

By Martin Z Braun

September 13, 2018, 6:00 AM PDT

A Troubling Trend for Cities: Slowing Revenue But Rising Spending Growth.

The annual National League of Cities report signals potentially more challenging times ahead for many localities.

Despite a relatively strong economy, most U.S. cities aren't enjoying robust revenue growth.

On Thursday, the National League of Cities (NLC) released its annual survey of finance officers across the country, finding city revenues grew by an inflation-adjusted average of only 1.25 percent in fiscal year 2017 and are expected to further slow over the current fiscal year. At the same time, spending pressures aren't subsiding, climbing at a steeper 2.16 percent last fiscal year.

Historically, fluctuations in cities' revenues have generally mirrored changes in expenditures. But the latest data from the City Fiscal Conditions report suggests spending growth is exceeding revenue growth. Annual revenue growth peaked in 2015 after declining in the aftermath of the Great Recession and has since started to decelerate, as has spending growth, but to a lesser extent.

Taken together, the findings signal potentially more challenging times ahead for many localities.

"City leaders and finance officers are being conservative and are being cautious," says NLC's Christiana McFarland, who co-authored the report. "They're being a lot smarter about how they're planning and the likelihood for uncertainty."

A number of factors are effectively holding back cities' revenues from keeping up with expenditures.

Property taxes, a major source of revenue for many local governments, are still climbing as property values increase. But they've taken a downward turn recently as the housing market has cooled down, with surveyed cities reporting growth of less than 1 percent for the current fiscal year.

Income tax revenues have similarly slowed significantly — ticking up by 1.3 percent nationally last year — as many segments of the workforce haven't experienced wage increases. Only select cities in states like Kentucky, New York and Ohio rely on income taxes, though, while most others don't assess any such taxes.

"When we look under the hood of what is happening in the broader economy, there is still expansion, but there is slower growth. That's being reflected in city finances," McFarland says.

The largest major recent drop in revenue growth has come in sales tax collections. The report's year-over-year increase of 1.8 percent was the lowest recorded in the survey since 2011. The good news for city budgets is that they're expected to eventually receive a boost after the Supreme Court ruled earlier this year that governments could collect sales taxes from businesses without a physical presence in a state. The decision's exact fiscal impact on individual localities has yet to be determined, though.

Further putting pressure on local budgets, jurisdictions in many areas have incurred cuts in state aid. Nationally, localities' own-source revenues have grown much faster than intergovernmental funding over the longer term.

Cities have typically responded, McFarland says, by shifting their revenue sources. One of the more common responses in recent years has been to levy higher fees, such as those paid for trash or parks and recreation. The NLC survey found that 41 percent of cities increased existing fee prices last fiscal year, but fewer are initiating new types of fees.

Still, forecasted revenue growth remains slightly positive. The report also notes that finance officers typically take a conservative approach in forecasting revenue growth, so actual final numbers will likely be above those reported in the survey. But NLC doesn't expect budgeted fiscal 2018 revenues to exceed those recorded last fiscal year.

On the spending side, major line items most commonly requiring more city spending last year included employee wages (88 percent), infrastructure (71 percent) and public safety (78 percent).

Individually, many cities are faring better or worse than the aggregate survey results suggest. About 63 percent of cities with populations under 50,000 reported they were "better able" to meet their financial needs than the prior year. Larger cities reported more positive findings, with 84 percent of the biggest cities over 300,000 residents saying their ability to meet financial needs had improved.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 13, 2018

Calls Mount for Investors to Sell High-Yield Munis After Rally.

- **Oppenheimer, Ramirez advise clients to sell riskiest debt**
- **Muni junk bonds have returned twice as much as corporates**

A growing chorus of analysts is advising those who invest in high-yield municipal bonds that it may be time to take their money and run.

Analysts from Oppenheimer & Co. and Samuel A. Ramirez & Co. on Monday said it makes sense to lock in their gains by selling the riskiest municipal bonds, which rallied this year as fixed-income investors sought out bigger returns. The 4.4 percent return on high-yield state and local government debt in 2018 is about twice the gain for corporate junk bonds and stands in contrast to the loss in the broader municipal market, according to Bloomberg Barclays indexes.

Oppenheimer analyst Jeffrey Lipton said high-yield municipal bond performance has possibly peaked after "outperforming the broader muni market with extended inflows" that have pushed down the yields relative to top-rated securities.

"We are not sure that further spread tightening is sustainable," he wrote.

Ramirez, a New York-based brokerage, said the sector has run up too far and advised clients to look at highly-rated debt with maturities at 15 years or less, particularly those that can be called back by the issuer in five to eight years.

"It makes sense to pare back credit risk and improve credit quality into 'AA' or better general market names," Ramirez wrote in its note. "We particularly like selling muni high yield into current market strength to capture gains at this time as we think bonds in this sector are vastly overbought."

Bloomberg Markets

By William Green

September 17, 2018, 12:50 PM PDT

— With assistance by Amanda Albright

Statement by U.S. Conference of Mayors on FCC's Order Proposing to Usurp Local Property Rights.

Washington, DC—Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on recent FCC proposals diminishing local government ownership rights over local rights-of-way and other public property:

"The U.S. Conference of Mayors strongly opposes recent proposals by the Federal Communications Commission to grant communications service providers subsidized access to local public property and to dictate how local governments manage their own local rights-of-ways and public property. This unprecedented federal intrusion into local (and state) government property rights will have substantial adverse impacts on cities and their taxpayers, including reduced funding for essential local government services, as well as an increased risk of right-of-way and other public safety hazards.

"We believe the courts will conclude that FCC's proposals are based on misguided interpretations of federal law. Congress previously addressed and resolved these issues resoundingly in favor of local and state governments and their property rights. The Conference and its member cities reject efforts by this unelected federal regulatory agency to improperly invade state and local government authority by compelling local elected officials to subsidize, or "gift", local public property to a small, favored group of private businesses. According to FCC's own estimates, just one of these actions – the proposed small cell rules – threatens future revenues to local (and state) governments by billions of dollars over the next decade.

“The Conference of Mayors strongly opposes these proposals and calls on the agency to change them; absent such changes, the Conference and its members will seek relief in federal court to overturn this unprecedented overreach by the FCC.”

As Climate Impacts Threaten Cities, Mayors Take Action.

Cities Step in to Lead and Aggressively Fill Void Left by Federal Government

Survey: Mayors Leading the Way on Climate – 2018

SAN FRANCISCO—A survey released today by the United States Conference of Mayors and the Center for Climate and Energy Solutions (C2ES) in San Francisco points to mayors as a key force behind U.S. action to reduce greenhouse gas emissions responsible for the growing effects of climate change. The Alliance for a Sustainable Future—a joint effort of the two organizations—was joined today at City Hall by San Francisco Mayor London Breed, U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin, dozens of U.S. mayors from across the country, and business leaders. The survey was part of a forum sanctioned by the Global Climate Action Summit meeting in San Francisco this week.

In the absence of federal action and a comprehensive climate policy, mayors have stepped up to fill the vacuum of climate leadership and counter efforts by the administration to stymie climate protection programs.

The survey found that 57% of cities responding are planning for new climate actions in the coming year.The effects on their cities, public health concerns, and cost savings are making low-carbon transitions an increasingly attractive option for cities – a bright spot for climate leadership despite the U.S. announcement of its intended withdrawal from the Paris Agreement.

The survey is a window into the actions cities are taking or considering to limit emissions as 95% report they have experienced climate impacts – from flooding, heavier snow and ice storms, and wildfires to heat waves and drought – in the last five years. The impacts are a stark reminder for why mayors are acting to improve energy efficiency, purchase renewable energy, and adopt low-emission vehicle fleets.

Cities are also reporting strong collaboration with other local governments and private sector partners to address climate change. Respondents expressed great interest in pursuing new opportunities with private sector partners to improve building efficiency and advance renewable energy usage and low-carbon transportation solutions.

Both large and small cities are tackling climate problems, with large cities leading the way to green vehicle fleets and cities under 250,000 residents increasingly switching to renewable energy for municipal purposes.

Key findings from 158 responding cities nationwide include:

• Cities are buying renewable energy: 65% of cities use renewable electricity for municipal operations. 27 cities now cover 30% or more of their operational needs with renewables – a 20% greater rate for that benchmark than a 2017 Alliance survey – and 8 cities cover 100% ofmunicipal

electricity needs with renewable power.
• Green vehicle purchasing programs: Nearly 60% of cities have programs, and 80% of new municipal vehicle purchases are made by cities with green purchasing policies.
o Bike-share and scooter-share services are the most popular transportation options cities are considering, with 22% of responding cities exploring bike sharing and 21% considering scooter sharing.
• Improving building efficiency: More than 70% of cities have energy efficiency polices for new and existing buildings. And better than half have policies or incentives in place for new commercial and residential buildings.
• Seeking business partnerships: 83% of cities are looking to the business community for support in advancing transportation, renewable energy, and energy efficiency solutions.
• Growing use of climate policies & initiatives: Over the last 12 months, 60% of cities have launched or significantly expanded a climate initiative or policy.
The survey included the responses of 158 cities from 39 states, including large and small cities ranging in size from 3,906 (Lambertville, NJ) to 8.5 million (New York City). Collectively, the cities surveyed represent more than 50 million Americans. The survey, now in its second year, is aimed at assessing the actions of cities to identify opportunities and help set priorities in their climate solutions.

"Our survey shows that cities of all sizes know that climate change is real. And, therefore, we are taking action. The U.S. Conference of Mayors is committed to lead in the development of programs to reduce carbon and make our cities healthier. Would it be easier if the Federal government and Congress were our partner? Yes. But in their absence, we will not abandon our responsibility to lead and preserve this earth for future generations," said USCM President and Columbia (SC) Mayor Steve Benjamin.

"We know the business community wants to work with us. In Salt Lake City we have partnered with Rocky Mountain Power on a comprehensive program to reduce greenhouse gas emissions. We believe there are many utilities nationally which are willing to step up and tackle this issue. We will be reaching out to them more aggressively in the future," said Chair of the Alliance for a Sustainable Future and Salt Lake City (UT) Mayor Jackie Buskupski.

"It is an honor to host this important forum of mayors and businesses in City Hall as part of the U.S. Conference of Mayors commitment to fight global warming. With our national leaders failing to confront climate change, the nation's mayors are stepping up to make our cities more sustainable and protect our environment for future generations," said San Francisco (CA) Mayor London Breed.

"The actions of this Administration seek to roll back the progress we have made on climate action. But the American people know that the weather is changing and beginning to threaten both urban and rural America, and that a major effort is needed to respond. Mayors have their ear to the ground. The need for climate protection is not going away. And neither will America's mayors," said USCM CEO and Executive Director Tom Cochran.

"What we're learning is that partnerships with the business community and local utilities result in far greater returns in reducing greenhouse gas emissions than mayors can do alone," said C2ES President Bob Perciasepe. "It speaks volumes that so many cities have a high level of interest in private sector partnerships. They want solutions for their residents, and partnerships help provide the needed expertise, funding, and services to achieve them."

About the Alliance for a Sustainable Future: The Alliance for a Sustainable Future was formed by USCM and C2ES in 2016 with the shared goals of keeping city officials and business leaders informed and empowered to design and implement local plans for low-carbon, sustainable communities.

About The U.S. Conference of Mayors: The U.S. Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. There are nearly 1,400 such cities in the country today, and each city is represented in the Conference by its chief elected official, the mayor. Learn more at www.usmayors.org.

About C2ES: The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to forge practical solutions to climate change. Our mission is to advance strong policy and action to reduce greenhouse gas emissions, promote clean energy, and strengthen resilience to climate impacts. Learn more at www.c2es.org.

Catastrophe-Bond Investors Hard to Rattle as Florence Approaches.

- **Aon's Schultz sees no panicked sales in 'sophisticated' market**
- **Investors are in 'for the long term,' Fitch's Grimes says**

Catastrophe-bond investors probably stayed calm and didn't nervously sell their holdings as they watched Hurricane Florence hurtle toward the U.S. East Coast this week, market observers say.

Trading has been relatively muted ahead of the storm that's set to make landfall in the Carolinas on Friday, according to Paul Schultz, chief executive officer of the Aon Plc investment-banking group that helps companies issue cat bonds. The securities offer higher yields in exchange for the risk that the principal could be wiped out by natural disasters.

"The market is more sophisticated," Schultz said in an interview. "There's not sort of panicked selling, there's not distressed levels of just getting out of a bond if you think there's some exposure. It's more of an informed view where you're looking at the potential track of the hurricane, you're looking at the implications of your portfolio."

Investors such as pension funds have snapped up cat bonds, which can help diversify portfolios. One gauge of the market, the Swiss Re Cat Bond Price Return Index, prices weekly on Friday. Christopher Grimes, a Fitch Ratings director, said the index might move down slightly, then is likely to recover unless Florence is worse than forecast.

"We don't think that the market is maybe as opportunistic as maybe it was thought to be at one point," Grimes said. "This is fairly sticky capital, where investors are in for the long term."

Florence's leading edge had struck waterfront towns in North Carolina by Thursday afternoon, with the full impact still to come. When the hurricane is done lashing the coast, its storm surge could flood tens of thousands of structures, according to North Carolina Governor Roy Cooper.

Aon's Schultz said that bid-ask spreads this week indicate muted volatility in the cat-bond market. Prospective investors are generally asking for a larger discount, but bondholders seem to be resisting. That reflects a "mature view in the marketplace," Schultz said.

The cat-bond index plunged last year as Hurricane Irma approached Florida. It later rose slightly, but has stayed under pre-Irma levels. Florence's current path could help temper any impact on cat bonds this time around because fewer of the securities carry risk in the Carolinas, and Florida is expected to avoid a hit.

Damage estimates for Florence remain uncertain because the storm's path could shift as it moves inland. Widespread power failures and business interruptions are seen as likely, and hundreds of thousands of people have evacuated the region.

"As long as that hits in a populated area, we would expect it to have some impact to the cat-bond market," said Brett Houghton, a portfolio manager at Fermat Capital Management, which oversees investments in insurance-linked securities.

Bloomberg Markets

By Katherine Chiglinsky and Ivan Levingston

September 13, 2018, 9:00 PM PDT

S&P Hurricane Watch: Monitoring The Financial Impact On Governments In Florence's Path

Anticipating the path of a hurricane, gathering information on the damage, and then evaluating its potential credit implications can be challenging and the effects can vary widely, even within a relatively small geographic area.

Continue reading.

Sep. 14, 2018

Hurricane Florence Barrels Toward Unfazed Municipal-Bond Market.

- **North, South Carolina munis see little trading ahead of storm**
- **Even Hurricane Katrina didn't cause municipal-bond defaults**

With more than a million residents evacuating as Hurricane Florence heads toward North Carolina, one would expect money managers to be unloading bonds sold by local governments in the path of what may be the strongest storm to pummel the region since 1954.

But they're not.

On Tuesday, there was little trading in debt issued by governments in North and South Carolina and prices of the most active securities were little changed, according to data compiled by Bloomberg. It's a bond-market response similar to those ahead of previous natural disasters, including the hurricanes that dealt devastating blows to New Orleans and Houston.

Those storms, like others, prompted an influx of aid and insurance money and ultimately posed little peril to investors. And no state or local government whose bonds were rated by Moody's Investors Service has defaulted because of a natural disaster, according to the credit-rating company.

Even Hurricane Katrina, which caused a lasting exodus from New Orleans, didn't cause it to renege on bond payments. Nor did Hurricane Harvey, which submerged Houston and caused an estimated $125 billion in damages, stop most affected Texas localities from growing: Sales-tax revenue has actually climbed in the year since that storm, partly because of the rebuilding efforts, according to Moody's.

"If you go back and look at what happened in Houston, which had devastating results from Hurricane Harvey, the economy bounced back surprisingly well," said Patrick Luby, municipal strategist at CreditSights Inc., noting local governments' ability to rebound from storm damage in recent years. "What the market is hoping is that most of these issuers are going to have some free resources that they can redirect."

While storm surges are threatening hundreds of thousands of homes in coastal communities, it's so far impossible to predict what sort of specific damage could occur, much less the potential impact on creditors. Florence is projected to make landfall Sept. 13 or Sept. 14 between Charleston, South Carolina, and Norfolk, Virginia, according to the National Hurricane Center in Miami.

One of the most active North Carolina bonds, general-obligation securities due in 2029, had six trades, selling for an average of 105 cents on the dollar, down from 105.5 cents on Sept. 5, the last time they traded. The most active South Carolina state bond traded for about 109 cents, little changed from Sept. 5.

"The big thing is how much the damage is and how much it takes to come back," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state and local debt. "A lot of times the insurance proceeds really cover a lot of the damage, or the state will cover it or the federal" government.

While states and cities typically recover, big storms can have lingering effects on small, lesser known borrowers in the municipal market. Hurricane Matthew, a Category 5 storm in 2016, caused disruptions that negatively affected Southeastern Regional Medical Center in Lumberton, North Carolina when families who lost their homes left the area, according to S&P Global Ratings. It also hurt the operating performance of the BBB rated Columbus Regional Healthcare System, which is located about 45 miles from the coastal city of Wilmington, North Carolina, according to the ratings company.

"There are some muni assets that could be adversely affected," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago. "We'll have to wait and see."

Bloomberg Markets

By Elizabeth Campbell and William Green

September 11, 2018, 10:42 AM PDT

— With assistance by Amanda Albright, and Brian K Sullivan

Transit Advocates: Is the White House Purposefully Delaying Project Funds?

Advocates say the Federal Transit Administration is sitting on nearly $1.8 billion that's supposed to help build light rail lines, streetcars and subway improvements. Delaying these projects, they argue, could increase costs for local transit agencies.

Transit advocates are becoming increasingly alarmed that the Trump administration may be intentionally slowing down the process for local agencies to get the money they need to build new projects, like light rail, streetcars and bus rapid transit.

The U.S. Department of Transportation is sitting on nearly $1.8 billion for projects that are ready or nearly ready for final federal approval, according to Transportation for America, a group that promotes local transportation improvement efforts. Specifically, the group is concerned that the Federal Transit Administration (FTA) is not distributing money from its New Starts, Small Starts and Core Capacity programs, which all help local transit agencies pay for big-ticket construction projects.

The delays at the FTA affect rail projects in and around Chicago, Dallas, Minneapolis and New York City. They could impact new streetcar service in Sacramento, Calif.; Tempe, Ariz.; and Orange County, Calif. And new rapid bus service in El Paso, Jacksonville, Fla., Reno, Nev., Seattle and St. Petersburg, Fla. could be delayed as well.

The backlog may actually be even bigger than that, says Beth Osborne, a former Obama administration official who now works for Transportation for America. It's hard to know exactly how much money is waiting to be distributed, she says, because the Trump administration has released fewer details than previous administrations about the status of projects. (The Obama administration's 2016 report, for example, was 189 pages long, while the Trump administration's corresponding 2018 report is just 20 pages long. The FTA says it no longer includes information on individual projects in those reports, because details are available online.)

Transit officials are reluctant to complain publicly, Osborne says, because they don't want to jeopardize funding for their projects.

Osborne worries that the Trump administration is deliberately trying to "slow walk" the grant process, because it opposes the federal government spending on money on local transit projects. "I take this administration at its word," she says. "This administration has made very clear that they don't believe that federal government should put any money to transit. They've told us that repeatedly. Then there seems to be surprise when we [connect] those beliefs to this action. But it's hard to see any other way."

But the FTA says the reason the projects haven't received funding is because they aren't yet ready. "Transportation for America fails to recognize that projects must be eligible to receive funding by meeting the established requirements and criteria. FTA cannot give out funding for proposed projects that have not met the established requirements to be eligible for consideration to receive [capital] funding," said an FTA spokesperson in a statement to Governing. "Any characterization of FTA delaying the funding of grants is inaccurate as the majority have not met eligibility requirements."

The process can be a lengthy one. Transit agencies have to round up funding for the rest of the project, get agreements with contractors and other third parties, develop cost estimates and prove that they can manage a project of its scope. Then the FTA reviews the projects and rates them. Projects must earn a "medium" rating to obtain funding.

Other hiccups can slow down the processes even further. A bus rapid transit system in Seattle, for example, has to be redesigned because the vehicles the city planned to use can't make the climb up steep hills on the route. A lawsuit is holding up one light rail project in Minneapolis, and another one is on hold because a freight railroad won't grant the transit agency right of way. A legal challenge is also threatening the funding of a riverfront streetcar in Sacramento.

Clearly, the FTA's own review processes can also be a factor. The agency, for example, has asked for more financial information about tunnel repairs on New York City's 'L' line between Manhattan and Brooklyn. And it is conducting risk assessments for platform extensions for Dallas' light rail.

One of the most common problems among the applicants, though, appears to be that they haven't secured all of their non-federal funding. That is an issue for bus rapid transit projects in both St. Petersburg and Jacksonville in Florida, along with the Sacramento streetcar and a bus rapid transit project in El Paso.

Meanwhile, the Tempe streetcar and Minneapolis orange line are near the end of the FTA review process.

It is true, though, that the Trump administration has repeatedly tried to reduce the federal government's spending on infrastructure projects, particularly for mass transit. In explaining the president's infrastructure package in February, the White House said an "unhealthy dynamic" had developed in which local governments delayed projects to try to get more federal support for them. Then, the administration opted not to request any money from Congress to fund the transit-building programs in next year's budget. "Future investments in new transit projects would be funded by the localities that use and benefit from these localized projects," the president's budget proposal stated. Congress added funding for those programs anyway.

On the other hand, President Trump has repeatedly chafed at how long it takes for public infrastructure projects to be built. He signed an executive order to speed along federal reviews of major infrastructure projects, with the goal of giving local officials a decision within two years.

But delays with the federal funding process could wreak havoc with transit agencies' plans to upgrade or expand their systems.

Earlier this year, for example, Los Angeles-area officials broke ground on a subway route extension that will connect downtown to Beverly Hills, Century City and the neighborhood around the University of California, Los Angeles. Organizers hope the new stations will be ready by 2025, well in advance of the 2028 Summer Olympic Games that the city will be hosting.

But the Purple Line Extension could get a lot more expensive — $200 million more, according to the Los Angeles Times — and could take up to two years longer if Los Angeles Metro does not receive a federal sign-off on the final portion of the project by Oct. 3. That's the date that a bid from construction companies to dig the western portion of the tunnel expires, so going beyond that date could require the agency to put the work out to bid again. LA Metro is not explicitly looking for FTA funds at this point, but it wants the federal government's permission to spend its own money for the time being and still be eligible for reimbursement later.

LA Metro asked for the FTA to respond by Sept. 30, and the FTA is currently reviewing that request.

The administration's slow progress on transit grants has also caused problems for the FTA on Capitol Hill.

In March, the Republican-led Congress ignored the president's request to eliminate new funding for the transit projects. In fact, in its spending package, it specifically directed FTA to obligate 85 percent of the transit capital plans by Oct. 1, 2019. That's an unusual arrangement, especially for programs where there is usually more interest than money available.

The U.S. Government Accountability Office (GAO), though, later reported that the FTA did not intend to comply with that provision. The FTA "did not indicate that they have any immediate plans to address those provisions," the oversight agency wrote in a May report to Congress . "Moving forward, if FTA does not take steps to address the outstanding provisions, FTA runs the risk of violating federal law."

It's not clear, though, what would happen if the Trump administration does not meet the congressional mandate, says Transportation for America's Osborne. Normally, unspent money goes back to the federal treasury, but that's exactly the outcome that Congress sought to avoid.

Congress could pick projects itself, but its members have been loathe to insert specific earmarks after a series of earmark-related scandals in the mid-2000s. Republicans banned earmarks when they took control of Congress in 2011.

Meanwhile, the GAO auditors also determined that the FTA had not been working on other regulations required by recent federal laws, such as issuing rules for grants that improve existing transit systems, creating a process for transit agencies to apply for grants for more than one project at the same time and creating a quicker process that would allow certain types of projects to get funding faster.

FTA officials disputed the auditors' findings that it had not addressed those needs, but they agreed to work on the issues raised by the auditors.

GOVERNING.COM

BY DANIEL C. VOCK | SEPTEMBER 11, 2018

How Munis Could Play a Role in Disaster Legislation.

WASHINGTON – Congress should consider legislation to facilitate bond funding in the wake of major disasters, such as broadening the types of private enterprises that can access tax-exempt financing and allowing certain advance refunding issuances, the National Association of Bond Lawyers urged in a paper released Wednesday.

The paper, "Disaster Recovery Bond Financing: Considerations for Congress" is the product of a working group chaired by John England of Butler Snow's Jackson, Miss. office.

Based on legislation previously adopted by Congress in response to 9/11, Hurricane Katrina, and flooding in the Midwest, the recommendations lay out what NABL suggests are the most important components of comprehensive, permanent disaster recovery legislation.

"Despite containing a useful guide for designating disaster areas, the federal aid which follows such a designation, provided under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and other sources, may not be immediately be available for local governments to use to address emergency issues," NABL said in the paper.

This isn't the first push to tap the muni market for more sustainable disaster-relief funding. Last year, for example, the Council of Development Finance Agencies threw its support behind a proposal to permanently authorize as much as $20 billion of federally tax-exempt bonds for disaster rebuilding.

NABL also made recommendations for legislative and regulatory changes in September 2005 after states and localities were devastated by Hurricane Katrina.

“This paper is intended to provide Congress with a blueprint for permanent disaster relief financing mechanisms that our experience shows would benefit state and local governments in the aftermath of a major disaster,” said NABL President Sandy MacLennan, a partner at Squire Patton Boggs in Tampa, Fla. “The concept of a permanent structure for these provisions will expedite the recovery process.”

New legislation should revise the tax law to allow local governments to establish and maintain a disaster recovery working capital reserve in excess of 5% of the previous year’s working capital expenditures without resulting in tax-exempt bond proceeds being deemed not to have been spent, NABL said. A new law should also permit Treasury to draft regulations allowing tax-exempt financing to provide for costs incurred in connection with direct losses resulting from a disaster, NABL suggested, such as overtime pay and expenses to relocate staff and equipment.

Legislation should “expressly recognize that proceeds of tax-exempt bonds are spent once allocated to a recovery-related project,” NABL said, “and permit reimbursements of recovery-related costs paid with proceeds of tax-exempt bonds to be reallocated to other expenditures related to the post-disaster recovery, regardless of the initial allocation of disaster bond proceeds.”

The group recommended putting the tool of advance refundings back into the hands of disaster-affected issuers, regardless of whether such bonds were previously advance refunded prior to the passage of the 2017 tax reform legislation that ended advance refundings.

Other suggestions include easing private activity bond restrictions and granting additional low-income housing tax credit authority to each state and allowing states to convert unused carryforward of their volume cap from previous years to additional low-income housing tax credit authority.

NABL’s paper also makes suggestions on how new legislation could support the credit of disaster-stricken issuers. For example, Congress could raise the bank-qualified bond cap to $30 million from $10 million for disaster-affected issuers for some amount of time, it recommended. Congress could also permit local governments to specifically pledge Federal Emergency Management Administration (FEMA) reimbursement funds as security for the payment of bonds, and authorize states to issue tax credit bonds and lend the proceeds to disaster-affected localities.

The paper concludes its recommendations with suggestions on how legislation could create jobs to promote a sustainable recovery from a disaster. This could be accomplished through broadening the types of entities that could benefit from tax-exempt financing, including hotels, office buildings, retail stores, medical clinics and other healthcare facilities, public utility property, warehouses, and manufacturing plant buildings, NABL said.

Congress could also ease public-private partnership restrictions, and use a formula to provide a maximum private activity bond volume cap with no restrictions on years of carryforward, NABL said.

NABL said it would be happy to assist Congress, Treasury, and the Internal Revenue Service in considering specific legislative proposals.

By Kyle Glazier

BY SOURCEMEDIA | MUNICIPAL | 09/05/18 07:04 PM EDT

More U.S. Cities Brace for 'Inevitable' Hackers.

Majority of top 25 U.S. cities have, or are looking to buy, cybersecurity insurance

Hackers are constantly probing for "the one flaw overlooked" in Houston's computer networks, the official responsible for safeguarding the fourth-largest U.S. city's system said.

"Compromise is inevitable," said Christopher Mitchell, chief information security official, at a Houston City Council hearing last month. His presentation helped persuade local lawmakers they needed a $30 million cybersecurity insurance plan with a $471,400 premium, an example of a burgeoning trend across the country. Policies vary, but insurance can cover hackers' extortion demands, legal liabilities, computer-forensics expertise and costs for problems like having government services knocked off line.

A majority of the 25 most-populous U.S. cities now have cyber insurance or are looking into buying it, according to a Wall Street Journal survey. A ransomware attack on Atlanta earlier this year—one of the biggest reported breaches of a city's network—served as a warning to officials everywhere of the constant barrage from hackers. Cities and even library systems are being hacked more often than people realize, but many heard about Atlanta.

"It got a lot of people nervous and got a lot of people coming to the market and saying, 'Hey, I'm really interested in buying this,' " said Brad Gow, global cyber product leader at insurer Sompo International Holdings Ltd.

Cities including Boston, Nashville, Tenn., Washington, D.C., and San Jose, Calif., are actively researching cyber insurance. Dallas, San Diego, Denver and Detroit are among those that already have cyberpolicies; none have filed claims.

"I wanted A to Z to have it covered," said Mark Barta, risk management director in Fort Worth, Texas, which got a $5 million cyberpolicy with a $99,570 premium last year. "I didn't want to be in a situation on a Monday morning hearing this happened, and saying, 'What do I do next?' "

Some cities—including New York, Chicago and Philadelphia—declined to say whether they have cyber insurance. Some, like San Antonio, have cyber coverage through an existing property policy. Others say they are self-insured, which can entail creating a special fund to cover losses.

Seattle is self-insured and doesn't have additional cyber insurance, but reviews its need for coverage every year and is currently soliciting quotes, a spokeswoman said.

"There has been an increase in cyberattacks facing state and local governments this year," Andrew Whitaker, Seattle's chief information security officer, said in a statement.

Insurers writing cybersecurity policies for cities include Sompo, American International Group Inc., Lloyd's of London and Axis Capital Holdings Ltd.

Atlanta has a cyber-insurance policy that took effect Jan. 1, less than three months before hackers managed to freeze city computer systems. The city refused to pay a $51,000 ransom, but hacks can entail many other costs, from the emergency response to building stronger defenses. Mayor Keisha Lance Bottoms has estimated that Atlanta was facing more than $20 million in costs following the attack.

An Atlanta spokesman said officials have begun submitting claims but didn’t respond to questions about the monetary value of those claims or whether the carrier, AIG, has issued any payments.

Cyber insurance has recently been a fast-growing market for U.S. corporations worried about attacks. Mr. Gow said his business—which insures Fort Worth, Charlotte, N.C., and soon, Houston, according to the cities—is also seeing strong public-sector growth. Overall, Sompo’s cyber business has grown 30% a year since 2014, he said.

Cities are generally a “tough class” for underwriters, Mr. Gow said. One challenge municipalities face is hiring and retaining top IT staff. “There are not enough of these men and women around for the Fortune 500, much less for all the towns and cities and states that need these talents,” he said.

Houston’s cyber insurance—three $10 million policies from different insurers—is intended to cover many potential problems, including costs due to an interruption of city services and the expense to restore, re-create or re-collect lost or damaged data, officials say.

It would also cover costs tied to ransomware attacks like the one that struck Atlanta. Mr. Gow said it often makes sense to give in to lower-cost extortion demands.

“As a rule, if it’s manageable—under $5,000 or $10,000 or $20,000—it’s better for everyone, as distasteful as it is, to pay the ransoms,” he said.

Though the Houston City Council unanimously approved the plan, one member had questions about the nearly $500,000 premium. Council member Jack Christie embraced the insurance plan. “We’ve been attacked, and the defense system so far has worked,” he said. “Because the intensity has picked up, we need this insurance against that.”

Los Angeles doesn’t carry a policy, an official said. The city has, however, spent the last several years on an “aggressive strategy to improve protection,” said Reuben Wilson, general counsel for public safety in the mayor’s office, at a June meeting of the U.S. Conference of Mayors in Boston. This includes creating an operations center to monitor for threats citywide, he said.

On an average day, Los Angeles sees 45 million unauthorized access attempts that are blocked automatically by firewalls, Mr. Wilson said. But firewalls and antivirus software don’t catch all of the latest attacks, he said, and the city’s cybersecurity analysts neutralize about 2,000 intrusions each week before any harm is done.

Many cyber incidents happen when an employee opens an attachment or clicks on a link that inadvertently gives hackers access to the network.

“Humans fall for stuff, humans make mistakes,” said Austin Morris Jr., chief executive of an insurance brokerage in Huntingdon Valley, Pa. He said such scenarios generally don’t allow an insurer to deny coverage.

The risk hit home in San Francisco two years ago when hackers infiltrated systems at the city’s transportation agency, causing it to turn off ticket vending machines as a precaution. While San Francisco has a $50 million cyberpolicy for its public-health department, the city wants to cover the entire municipal government.

Risk managers are working with brokers to learn about other cities’ policies, and San Francisco has also hired a consultant to help quantify its risk so it can get sufficient coverage. The hackers are always evolving, said Michael Makstman, San Francisco’s chief information security officer.

"This is their work, day in and day out, to try to attack," he said. "We do X, then they react with Y. We do Y, and then they react with Z."

The Wall Street Journal

By Scott Calvert and Jon Kamp

Updated Sept. 4, 2018 5:20 p.m. ET

Smart Beta ETFs Take on the $3.8 Trillion Municipal Bond Market.

- **Columbia Threadneedle files for 'strategic beta' muni bond ETF**
- **Fund excludes California, has high exposure to revenue bonds**

First smart beta investing took stocks by storm. Then it moved to bonds. Now it's making its way to the $3.8 trillion market for U.S. municipal debt.

Columbia Threadneedle Investments, known for its municipal-bond mutual funds, has filed for an exchange-traded fund called the Columbia Multi-Sector Municipal Income ETF, which will seek to replicate the performance of a muni market index with a "rules-based" and "strategic beta" approach, according to a May filing with the U.S. Securities and Exchange Commission.

Once it starts trading, it'll be Columbia's first municipal bond ETF and likely one of the first smart beta funds in the muni market. Smart beta is a strategy that aims to give investors more targeted exposure by building indexes around themes, called factors, such as momentum or value.

ETFs haven't made deep inroads in the municipal-bond market like they have in other asset classes, with just over 40 muni funds trading. Still, Columbia found in a survey of more than 100 financial advisers that over half would consider buying a smart beta municipal-bond ETF for clients.

The results are "encouraging," Marc Zeitoun, head of strategic beta at Columbia Threadneedle, said in an interview. He estimates the shift to benchmarking and passive investing in municipals is about six years behind the equity market.

"This is a trend that will likely occur in the municipal world," Zeitoun said. "It's happening in every other asset class."

Making Munis Smart

Muni ETFs typically use traditional passive investing strategies. For example, BlackRock Inc.'s $10 billion iShares National Muni Bond ETF, known by the ticker MUB, follows the performance of a market-value weighted index, meaning it carries high exposures to the states and sectors with the largest amounts of debt outstanding, like California and New York.

The Columbia fund would take a different approach, targeting debt market factors such as yield, quality, maturity, liquidity and interest rate sensitivity, according to the filing. The ETF also would establish "rules" for what it won't buy, like California bonds, which have gotten increasingly expensive as people look to shield their income from taxes.

Similarly, while the fund will have some exposure to junk-rated munis, it's taking a careful approach to those securities. The ETF won't have tobacco bonds as part of its high-yield holdings because they risk default if Americans keep quitting smoking. And it won't buy notes sold by bankrupt Puerto Rico or other U.S. territories that are all facing high debt levels.

About 45 percent of the fund will be in "core" revenue bonds that are rated Aa3 or lower, 20 percent will be in health-care municipals rated Aa2 or lower, 15 percent will be in revenue bonds rated Aa2 or higher, 10 percent will be in general-obligation bonds rated Aa3 or higher and another 10 percent will be in high-yield municipals, according to the filing says. Each sector carries different maturity requirements.

Indexing Catches On

Catherine Stienstra, head of municipal bond investments at Columbia, is listed as the lead portfolio manager for the Columbia Multi-Sector Municipal Income ETF.

The high exposure to revenue bonds jibes with a widespread preference among municipal-bond investors for debt backed by a revenue stream as opposed to a promise to pay, known as general-obligation bonds. This comes after Detroit's bankruptcy imposed losses on general-obligation bondholders, eroding the value of a pledge once considered sacrosanct.

Indexing has been slow to catch on in the municipal market because investors believe it's difficult to navigate and therefore are willing to pay for actively-managed portfolios, said Todd Rosenbluth, director of ETF and mutual fund research at CFRA Research. The Columbia fund could be appealing because its smart beta approach would screen for investments based on characteristics that active managers use, he said.

Evolutionary ETFs

"It's a great marriage of what's working in both the active world and in the index world," Rosenbluth said.

One concern financial advisers have surrounding smart beta fixed-income funds is the cost, Columbia found in its survey. The ETF filing does not yet disclose the fund's proposed fees. Rosenbluth said the costs will likely be cheaper than actively-managed alternatives. He expects smart beta to catch on in the municipal market — just like equities and taxable fixed-income products — especially if the Columbia fund can gather assets quickly.

"It's evolutionary that we see this happening in the muni bond ETF space," he said.

Rising Rates on Wall Street Loans Push States to End Swap Deals.

- **Tax cut triggered clauses letting banks boost rates on loans**
- **Market shift lets them come out ahead despite big bank fees**

U.S. state and local governments are paying Wall Street firms millions of dollars to terminate interest-rate swap trades, spurred by rising costs on bank loans and bond-market swings that are allowing them to save money by refinancing derivative-laden deals.

Some of the nation's biggest debt issuers, including Illinois, New Mexico, and Massachusetts, have all sold fixed-rate bonds in the last six months and used some of the proceeds to pay banks to back out of the swap agreements. The low yields on new fixed-rate bonds have allowed some of them to come out ahead despite the termination payments.

In June, the New Mexico Finance Authority issued $420 million of fixed-rate debt, spending $64 million of the proceeds to terminate five swaps on floating-rate bonds and loans. That came after its costs on about $285 million of the notes owned by Bank of America Corp. had increased by about $1 million annually after the corporate tax cut allowed the bank to raise the interest rate to make up for its smaller profits on the tax-exempt loans.

“If you have debt out there that’s costing you over 5 percent and you can refinance it for less than 3 percent, the savings can be used to absorb the cost of the termination,” said Michael Zavelle, chief financial strategist at the New Mexico Finance Authority.

The derivative trades are the legacy of a popular financial tactic used more than a decade ago, when states and cities sought to save money by borrowing with floating-rate bonds paired with interest-rate swaps instead of selling traditional fixed-rate debt. The deals unraveled during the financial crisis when the housing bust hammered insurers that guaranteed the bonds, causing the interest rates to soar.

While many governments paid billions to back of out the deals, others opted to convert their floating-rate bonds into direct loans with banks. But many loans included clauses giving banks the right to raise the interest rate if legal changes lowered the return on their investment. The 2017 tax cut that slashed the corporate rate made the tax-exempt loans less valuable than before compared with other assets, once federal taxes are taken into account. So banks demanded more interest to make them whole.

“That changed the whole economics of this transaction,” said Zavelle. “It made sense only because costs increased because of the tax law change.”

Last month, Illinois issued $965 million of fixed-rate debt at an overall rate of 4.2 percent, using $75 million of the proceeds to terminate five swaps. A portion of the new bonds retired $600 million in floating rate-debt sold to four banks under direct purchase agreements that were set to expire in November. The borrowing costs on the new debt was about half of the old bonds, according to the state.

“Although a swap termination payment was due in order to fix out the bonds, the savings associated with the new lower interest cost fixed-rate refunding bonds far exceeded those costs,” Elizabeth Tomev, a spokeswoman for Governor Bruce Rauner, said in an email.

Swap terminations have also been driven by the drop in short-term municipal bond yields compared with those in the swaps market. That has made it more advantageous for governments to issue debt to unwind swap agreements that are set to expire within the next ten years, according to Nat Singer, senior managing director at Swap Financial Group, an interest-rate swap adviser to states, hospitals and universities.

In February, the Palm Beach County school district in Florida issued $339.5 million of bonds to refinance three series of floating-rate notes, using $50.4 million of the proceeds to end related swap trades. The rates on the new fixed-rate debt of 4.6 percent to 5.3 percent was about the same as the combined rate on the old debt and swaps, according to an April presentation to the school board.

“We actually had permission from our school board to terminate them for a couple of years now, we were just waiting for the right market conditions,” said Leanne Evans, the school district’s treasurer.

Bloomberg Markets

By Martin Z Braun

September 6, 2018, 10:30 AM PDT

— With assistance by Elizabeth Campbell

Oops! Some U.S. States Forget to Save Despite Growing Economy.

- **State fund balances can cover a median of 31 days: Pew Study**
- **Metric shows whether states are prepared for next recession**

Consumers are taught to save money during good times to prepare for the worst. Lawmakers who run U.S. states apparently haven't learned that lesson.

An analysis by Pew Charitable Trusts found that the financial cushion states have for recessions is wearing thin — despite the U.S. economy enjoying the second-longest expansion on record. States' total balances — including rainy-day fund reserves and general fund money left over at the end of the year — cover a median of 31 days of general fund expenditures as of fiscal 2018 estimates, 10 days less than right before the recession, the report found.

The situation is worse in states like Kentucky, where the rainy-day fund and leftover cash covers only about a third of a day of general fund expenditures, according to an analysis of fiscal 2018 estimates. The data are based on estimates from states before the close of the fiscal year and could change, Barb Rosewicz, project director at Pew, said in an email.

Continue reading.

Bloomberg Business

By Amanda Albright

September 4, 2018, 10:31 AM PDT

Racial Bias in Muni Market Costs Black Colleges, Research Shows.

- **HBCUs pay more than other schools with similar credit profile**
- **Difference more pronounced in Louisiana, Mississippi, Alabama**

Before Dillard University can start building a new dorm for its 1,291 students, the historically black college in New Orleans needs to raise money. To do that, it will have to contend with what researchers say is racial discrimination in the muni-bond market.

Historically black colleges and universities in the U.S. pay more to issue municipal bonds than non-traditionally black schools, according to recent research. After controlling for credit quality, issue type and other relevant factors, HBCUs pay on average 14 percent more in underwriting fees compared with historically white institutions.

Banks have to work harder to sell HBCU bonds, said Pengjie Gao, professor of finance at the Mendoza College of Business at Notre Dame and one of the authors of the report entitled "What's in a (school) name? Racial discrimination in higher education bond markets." Because of that effort, the school gets charged a higher fee.

For non-HBCUs, an average 81 cents out of every $100 raised flows to underwriters. HBCUs pay 11 basis points more, at 92 cents per $100 dollars raised. "Somehow the investor taste does matter for their decisions," Gao said.

In states like Louisiana, Mississippi and Alabama, the spread jumps to 30 basis points. The report, written by professors from Duke University, Drexel University, University of Southern California and Notre Dame, attributes the upcharge to racial bias among local investors, who are most likely to buy muni bonds for the state tax break.

'Racial Animus'

"Because HBCUs are located in states with high levels of anti-black racial animus, underwriters face steep frictions when trying to find willing buyers," the report read.

These higher spreads come at a significant price. Gao put the cost at $35,000 per issue on the low end. America's 100-plus HBCUs could find better things to do with that money, said Dillard President Walter Kimbrough. More than 75 percent of students at historically black institutions rely on Pell Grants to cover tuition and expenses, according to the Thurgood Marshall College Fund. At Dillard, for example, $35,000 would cover two full scholarships.

Bias in the bond market is another version of discrimination black Americans and institutions have faced in the financial sector, academics noted. In recent years, large financial institutions have defended themselves against charges of racial discrimination against employees and customers.

"There's already inequity, so I'm not surprised to see this ongoing inequity in the bond market," said Joni E. Finney, director of the Institute for Research on Higher Education at the University of Pennsylvania. "I think somebody should call them out on it and say, 'We expect this to change.'"

Expanding Pool

Some lawmakers have tried. After a preliminary version of the academic study was released in 2016, Minnesota Congressman Keith Ellison introduced the HBCU Investment Expansion Act, an action that would grant triple tax-exempt status to bonds sold by the schools. That would allow out-of-state buyers to purchase the bonds tax-free. In theory, expanding the pool of possible investors outside of the state they were sold would make it easier for underwriters to place the bonds — and less costly for the historically black colleges.

"This legislation will level the playing field and help HBCUs get the funds they need to build new dorms, labs or classrooms without additional costs or fees," Ellison said at the time.

The bill stalled in both the Ways and Means and Finance committees where it has remained ever since. Ellison is now running for Minnesota Attorney General.

As Dillard prepares for its first muni-bond offering since 2002, Kimbrough said he hopes the findings from the report will help him negotiate a fair deal with the underwriter they choose. He also said he knows what he's up against.

"We are under-resourced institutions that serve an under-resourced community," Kimbrough said. "Because of how everything else operates in the nation, those with the least resources end up paying more."

Bloomberg Markets

Danielle Moran and Jordyn Holman

September 4, 2018, 5:47 AM PDT

On Water Problems, Governments Actually Work Together.

When it comes to dirty lakes and rivers, governments have learned how to cooperate.

The greatest lubricant for intergovernmental harmony may well be water. I know that sounds odd, but the nation's largest bays and lakes offer compelling examples of how multiple states can work with each other — and also with towns and cities, federal agencies, universities, nonprofits, and foreign governments — to combat water pollution.

There is a lot of work to do. Ambitious surveys of more than 2,000 locations carried out in five-year cycles by the states and the Environmental Protection Agency show that a little more than half of the nation's rivers and streams are significantly polluted. That dirty water, in turn, flows downstream into the nation's bays, lakes and coastal areas. The chief contaminants are nitrogen and phosphorus, which contribute to the formation of algae blooms that lower oxygen levels needed to support aquatic life. A lot of the phosphorus comes from fertilizer, so the problem is particularly acute near farmland, though urban areas contribute as well. Once the chemical is introduced, it poses a permanent problem for the water, much like the carbon dioxide being released into the atmosphere.

A good example of this phenomenon is Lake Champlain in New England — one of the most beautiful inland lakes in the country, but also one of those most threatened by what is known as "legacy phosphorus." A recent study by the University of Vermont estimated that almost 240,000 tons of pollution had accumulated in the watershed in the past 90 years.

The Lake Champlain Basin Program was created 23 years ago and has the support of Vermont, New York and the Canadian province of Quebec, plus a wide array of local governments and private organizations. The regional administrator of the EPA has been a consistent player, as has the Quebec premier. The most recent report of the program concluded that the deterioration in the lake's water quality had subsided somewhat, but that the long-term problem of phosphorus buildups in parts of the lake continues.

The Lake Champlain Basin Program was marked for elimination this year by the Trump administration's proposed budget, but Democratic Sen. Patrick Leahy of Vermont, the vice chair of the Senate Appropriations Committee, had a blunt response: "That's not going to happen." He instead succeeded in getting the program a $4 million increase in funds this year. But the EPA did make it clear that the governments in the program must develop a new funding source of their own so the work can continue "regardless of fluctuations in federal spending."

Compared to Lake Champlain, the Chesapeake Bay is vast, with a watershed covering more than 64,000 square miles, including parts of Delaware, Maryland, New York, Pennsylvania, Virginia and West Virginia, as well as Washington, D.C. But there are similarities: The campaign to save the bay is well coordinated, largely by the EPA's Chesapeake Bay Program, created in 1983 and headquartered in Annapolis, Md. Here, too, the Trump administration attempted to zero out the $73 million in federal money allotted to the program, but Congress refused to go along.

Four years ago, when he was running for governor of Maryland, Republican Larry Hogan vehemently criticized a stormwater remediation fee, enacted in 2012 and designed to reduce the amount of runoff pollution headed into sewer systems and eventually the Chesapeake Bay. Hogan derisively called it a "rain tax." But as studies began to show stormwater remediation promoting underwater grasses that help clean up the bay, Hogan changed his tune and came to support the program. The "rain tax," coupled with other measures designed to eliminate runoff, has had a positive effect both environmentally and politically.

Finally, there are the five Great Lakes. Taken together, they form the largest surface freshwater system on the planet, hosting more than a fifth of the earth's freshwater supply. Their combined watershed includes significant areas of Canada and eight U.S. states, plus more than half a dozen major metropolitan areas and about 40 tribal nations.

The watershed is vitally important in both the U.S. and Canada as a center for manufacturing and agriculture, as well as shipping. The structure for cooperation to protect it was established early on, in 1972, when President Richard Nixon and Canadian Prime Minister Pierre Trudeau signed a Great Lakes Water Quality Agreement defining specific areas that were threatened by pollution. In the ensuing years the agreement has been amended many times, most recently six years ago to address the frightening algae blooms in Lake Erie.

If you have ever flown over the southwestern tip of Lake Erie in summer, you will understand the concern: The entire lake surface is a mass of green algae. The most serious infestation came in 2011. Not long after that, the 1972 agreement was amended to deal with the algae problem.

The water pollution challenge to governments at all levels is daunting because it mixes intricate science with complicated politics. But the intergovernmental outcome generally has been positive. There is occasional friction, as when Michigan complains that Illinois isn't doing enough to keep the invasive and dangerous Asian carp from entering its waters via the Chicago River. But the EPA regional offices have continued to be a positive force. That is vital. In the age of Trump, it also is highly uncertain.

Governing.com

By Peter Harkness | Founder, Publisher Emeritus

SEPTEMBER 2018

[What To Expect From S&P Global Ratings' U.S. Public Finance Rating Process.]

Our ratings, research, and insights support transparency in the capital markets and help market participants and investors make educated, confident decisions.

[Continue Reading]

Sep. 5, 2017

S&P: Pension Costs Will Remain High For Largest U.S. Cities, As Revised Liability Measures Place Upward Pressure On Contributions.

U.S. cities have varying legal, governance, and benefit structures and operate in different legal and economic environments, so there's no one-size-fits-all measure for assessing their pension and other postemployment benefit (OPEB) risk.

Continue Reading

Sep. 5, 2018

Doing More With Less: The Case for Investing in Multi-Use Infrastructure

In our current climate environment, critical infrastructure is under intense strain and not keeping pace with the changes and challenges of the 21st century — from the pot-holed roads we drive on every day to our outdated storm drainage systems. According to The Union of Concerned Scientists, more than 300,000 homes in U.S. coastal areas could be underwater within the next 30 years. It's clear that we need to rethink our traditional approach to infrastructure, and we should do so now to capitalize on the growing commitment to renewable energy and efficiency goals, and the new interest in green infrastructure projects.

At Neighborly, we want to help communities pursue a transformative approach to creating vibrant, sustainable and resilient infrastructure, and we believe modern municipal finance is is at the heart of delivering on this social contract. So it's concerning that California's infrastructure investment and resiliency challenges will adversely impact people and places, and as a result also their ability to access the capital markets to finance the very infrastructure they need to protect themselves.

In short, we need to do more with fewer public dollars by building multi-use, multi-benefit infrastructure.

Continue reading.

Neighborly

Posted 08/29/2018 by Kiran Jain

Advisers' Top Concern About Muni Bonds Is Yield.

> "As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach," suggests Catherine Stienstra, head of municipal investments at Columbia Threadneedle.

When establishing municipal bond exposure for clients, advisers are most concerned about yield and market complexity, according to a Columbia Threadneedle Investments survey.

Forty-three percent say their biggest concern with the asset class is finding the right amount of yield to align with their clients' goals and preferences. The next most highly cited concern (14%) was complexity in the muni market post-2008, followed by unintended consequences of benchmark investing (12%) and an inability to conveniently access all sectors of the muni market (12%).

Eighty-five percent said their muni investment decisions are at least moderately affected by credit and interest rate environments.

"Financial advisers are concerned about yield and market complexity when it comes to allocating client dollars to the muni space," says Catherine Stienstra, head of municipal investments at Columbia Threadneedle. "Traditional benchmark indices exclude viable investment options, are debt-weighted and can be over-concentrated in less attractive sectors. This puts advisers in a tough position when they try to balance cost-efficiency with investment opportunity. As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach."

Fifty-five percent of advisers said they would consider investing or are already invested in a muni bond strategic exchange-traded fund (ETF). Fifty-four percent favor actively managed investments. Thirty-nine percent are concerned about cost.

"Financial advisers are being pulled in multiple directions as they remain committed to doing what's best for their clients," says Marc Zeitoun, head of strategic beta at Columbia Threadneedle. "The competing priorities of price and preference for active management are a good example of the balancing act they face. Strategic beta ETFs present a great middle ground between 'best thinking active investment insight' and passive implementation. It's no wonder that track record and a firm's expertise as an active fixed income manager remain the most important factors when considering strategic beta ETFs."

Columbia Threadneedle's findings are based on a survey of 111 financial advisers.

By Lee Barney

Pensions in Dispute - August 2018

Welcome to our quarterly pensions litigation briefing, designed to help pensions managers identify key risks in scheme administration, and trustees update their knowledge and understanding. This briefing highlights recent Pensions Ombudsman determinations that have practical implications for schemes generally.

Please see full publication for more information.

Allen & Overy LLP

September 4, 2018

Municipal Bonds vs. Corporate Bonds: The Better Investment Vehicle

Everything from corporate debt to municipal debt instruments, the sheer size of U.S. capital markets can certainly be puzzling for an investor seeking to strike the right balance between risk tolerance, time horizon and desired yield to enhance their potential returns.

In the global debt universe, government bonds make up the largest piece of the pie followed by the corporate debt instruments. Where both, corporate and municipal debt, are quite similar in their formation and structure, their returns and tax treatments can be significantly different for investors.

In this article, we will take a closer look at both forms of debt, their main characteristics and how each one can fit into an investor's portfolio.

Continue reading.

municipalbonds.com

by Jayden Sangha

Sep 05, 2018

Water Shutoffs in Detroit Schools are Symptoms of a Bigger Infrastructure Challenge.

The start of the school year usually marks a hopeful beginning for many communities, but reports of contaminated water in Detroit schools are just the opposite. After testing for elevated levels of lead and copper in drinking water, sixteen schools exceeded safety guidelines, which resulted in shutoffs across the entire district. And just this week, more reports have surfaced on several other districts across the country with similar water quality challenges. Over the coming months, students, teachers, and their families must contend with bottled water, dry water fountains, and lingering health concerns.

These school districts are just another example of where inadequate testing and decades of underinvestment have resulted in water infrastructure that is aging or susceptible to widespread failure (or both). By now, stories of cities like Flint and New Orleans are etched in our national consciousness, as pipes and other facilities struggle to provide safe, affordable, and reliable service, let alone be prepared to stand up to a mounting number of climate pressures.

Continue reading.

The Brookings Institute

by Joseph Kane

September 6, 2018

Six Steps for Metro Areas to Prioritize Global Markets.

In an increasingly economically integrated world, local leaders are recognizing that regional economic development strategies must create environments in which firms and industries can compete internationally to generate sustained growth and quality jobs. Since 2012, the Global Cities Initiative (GCI), a joint project of Brookings and JPMorgan Chase, has helped metropolitan areas strengthen their international competitiveness and connections through research, problem-solving, and exchange, including development of trade and investment strategies with more than 30 regions around the world.

About 40 percent of global economic activity now comes from cross-border trade and capital investment, containing tremendous potential to generate wealth locally.[1] Increasingly, economic development leaders are looking to realign traditional economic strategies with global opportunities by helping local companies export to global markets, promoting their metro areas as sites for foreign investment, and cultivating exchanges of innovation and talent. This global economic engagement takes various tactical forms, including:

- Conducting trade missions abroad and hosting foreign delegations;
- Launching export grant competitions;
- Facilitating supply chain mentorships;
- Establishing "soft landing" accelerators to minimize investment risk;
- Providing global fluency training; and
- Forming long-term economic partnerships with international counterparts.

Continue reading.

The Brookings Institute

by Max Bouchet, Marek Gootman, and Joseph Parilla

September 5, 2018

Emerging Plan Would Rework Payments for Forest Counties.

Two senators are working on a proposal meant to get local governments in logging country off a funding "rollercoaster."

WASHINGTON — U.S. Sen. Ron Wyden told county officials here on Thursday that he's working on a plan to remake a program that provides payments to counties that have seen their finances weakened by diminished logging on federal forestlands.

The Oregon Democrat said he's developing the proposal with U.S. Sen. Mike Crapo, an Idaho Republican. Wyden says they're aiming to find a way to free local governments that depend on payouts from what's known as the Secure Rural Schools program from the unpredictability in both timber markets and the congressional appropriations process.

"I want to get these rural communities off the rollercoaster," he told reporters.

Secure Rural Schools provides an important funding source for some rural counties, particularly those in the west. Despite the name of the program, local governments can use money from it not only for schools, but also for costs like public safety and road upkeep.

For instance, Joel Bousman, a commissioner in Sublette County, Wyoming, said Thursday that his county uses much of the roughly $700,000 it receives to support a contract helicopter service for search and rescue activities in wilderness areas.

“Without SRS, my county would face budgetary issues,” he said.

Secure Rural Schools dates back to 2000 and Wyden was one of the co-authors of the original law that created it.

The program was designed to aid local governments that were seeing their budgets take a hit because logging had declined on nearby federal lands and the federal government was sharing less timber harvest revenue with them as a result.

Logging proponents often point to federal protections for the northern spotted owl and the old growth forests that provide its habitat as a key reason for declines in logging in the Pacific Northwest.

A spending package lawmakers approved earlier this year authorized two years of Secure Rural Schools payments to be applied for fiscal years 2017 and 2018. The fiscal 2017 payments provided $256 million to over 700 rural counties, parishes and boroughs across the nation, according to the National Association of Counties.

But in recent years, funding for the program has been unstable.

Local governments did not receive Secure Rural Schools payments for about two years leading up to the passage of the recent spending measure, and congressional lawmakers have resorted to budget gimmicks like tapping the nation’s helium and petroleum reserves to cover the program’s cost.

Wyden and Crapo have not publicly released a draft bill text or a detailed outline of their plan.

But Wyden said at the heart of the proposal would be a new permanent endowment, with an initial investment made by the federal government. The principal would be invested, and the interest would be used to make payments to counties. Payments would be set so they do not drop below first-year levels.

Route Fifty

By Bill Lucia,
Senior Reporter

SEPTEMBER 6, 2018

This Data Shows Who Grabs the Mic at Public Planning Meetings.

Andrew DeFranza has seen it countless times: An affordable housing project proposed in a mostly white, well-off community goes before the zoning board or the planning commission. A vocal minority of homeowners, themselves mostly white and well off, show up to oppose it. The project is killed, shrunk or delayed by litigation for years.

“We hear a lot of, ‘I’m in support of affordable housing, just not here,’” says DeFranza, who’s the executive director of Harborlight Community Partners, a community development corporation in southern Essex County in Greater Boston.

He wasn’t surprised to hear the findings in “Racial Disparities in Housing Politics: Evidence from Administrative Data,” a new paper by Boston University researchers. As the Boston Globe reported last week, the study of public meetings in nearly 100 Greater Boston cities showed that white people accounted for 95 percent of participants. In the same area, white people make up 80 percent of the population. Using an analysis of last names and geographic data from public meetings, the researchers concluded that “whites overwhelmingly dominate zoning and planning board meetings.” (Details on how the BU researchers determined the race of participants are in the “Estimating Race” section of the paper.)

Continue reading.

NEXT CITY

BY JARED BREY | SEPTEMBER 6, 2018

NIMBYs Dominate Local Zoning Meetings.

A study of the Boston area shows that those who participate in planning and zoning board meetings are older, wealthier, and much more NIMBYish.

The late Jane Jacobs never much liked forums for community participation in zoning and housing issues. She thought they were usually a sham to harness community sentiment in ways that benefitted powerful government and development interests. She personally told me the story of how Robert Moses dismissed her and her colleagues at one critical meeting as “nobody but a bunch of mothers!”

But the reality today is that community participation is effective—as a mechanism for creating and reinforcing NIMBYism and the accompanying restrictive zoning and land use policies.

That’s according to a new study by Katherine Einstein, Maxwell Palmer, and David Glick, political scientists associated with Boston University’s Initiative on Cities. People who oppose creating more multifamily housing development tend to speak at public meetings much more often than those who support it.

Continue reading.

NEXT CITY

RICHARD FLORIDA SEP 6, 2018

Houston Eyes Designer Bonds to Pay for $15 Billion Ike Dike.

- **Twist on catastrophe insurance partners with private industry**
- **‘Resilience bonds’ would help fund 60-mile levee system**

A massive dike to hold back storm-driven floods surging in from the Gulf of Mexico was first proposed after Hurricane Ike devastated the Houston-area coast a decade ago.

Last year's Hurricane Harvey disaster brought fresh enthusiasm for the languishing project – along with a wave of investor interest.

Now city and state officials in Texas are studying a possible partnership with private industry to create a new kind of bond to help pay for a $15 billion system of seawalls and floodgates, as a warming climate piles more storm risk on the nation's fourth-largest city. They're examining the market for catastrophe bonds, in which investors assume the risk for calamities like hurricanes in exchange for above-market returns and portfolio diversification.

"This is why we have financial markets, to come up with this type of solution,'' said Flavio Cunha, an economics professor at Rice University. "People love when markets can come and help construct some of these projects.''

At stake: the welfare of $500 billion in industry, including the nation's largest concentration of oil refineries and chemical plants. The dike could prevent countless homes and lives from being swept away in the 20-foot storm surge that would accompany a direct hit from a major hurricane -- a potentially worse cataclysm than Harvey.

Harvey flooded hundreds of thousands of homes and businesses, wreaking $125 billion in damages, a reminder of how vulnerable one of the nation's most important economic centers remains. After a decade of indecision, officials have rallied around a plan for a seawall almost 60 miles long fitted with massive floodgates at the center to protect Galveston Bay and the industry lining the Houston Ship Channel.

The Dutch proved long ago that it can be done; Much of the Netherlands would be swamped if not for its network of levees and floodgates holding back the sea. Houston's plan is modeled after those engineering marvels.

The Coastal Spine, also known as the Ike Dike, is the largest civil works project under consideration in the U.S., according to the Texas General Land Office. It would be a landmark deal for financial markets, too. If Houston can bring together the public and private sector, the new financing model could be replicated to reinforce communities from Florida to California against Mother Nature's wrath.

Catastrophe Bonds

The U.S. Army Corps of Engineers in July committed $1.9 million for a study, and the state is seeking federal funding for construction. But under Corps rules for such projects, local governments would still need to shoulder 35 percent of the cost -- perhaps $5 billion — plus ongoing maintenance and repairs.

To raise the money, project backers are studying catastrophe bonds, which trade on public markets and have been adopted by companies and cities as a more cost-effective way to supplement or replace conventional insurance.

"Infrastructure finance related to resilience or risk reduction, that is probably the most dynamic area where we are seeing innovation at the moment,'' said Daniel Stander, managing director at Risk Management Solutions, a consultant.

Following Hurricane Sandy in 2012, Amtrak obtained $275 million of natural-disaster protection for its railway from fixed-income investors, and New York's MTA tapped the market twice for a total $325 million for its subway system.

Texas would put its own twist on the concept, pioneering a new instrument called "resilience bonds" that would both insure against flood damage and help fund construction of the Ike Dike, said Marvin Odum, Houston's chief recovery officer and a retired president at Shell Oil Co., a unit of Royal Dutch Shell Plc.

How It Works

Here's how money for the Ike Dike could be raised from the financial markets: Oil companies, chemical makers, railroads and others with assets exposed to flood risk would collectively issue resilience bonds to replace their traditional insurance.

When the storm barrier is complete after perhaps three years, payments to the bond investors would drop to reflect the lower risk of flooding. The companies would continue paying the higher, pre-dike rate, and the difference would go toward paying off the project.

Odum has pegged the value of industry along the Texas coast at $500 billion, giving companies plenty of incentive to help fund the Ike Dike campaign. The cost of paying investors interest on the bonds shouldn't be any greater than the cost of insurance, said Shalini Vajjhala, chief executive officer of re:focus partners, a firm that brokers public-private partnerships for sustainable infrastructure.

A Houston nonprofit has organized a panel to discuss the project on Sept. 12.

Texas Twist

So-called resilience bonds were conceived in 2015 by re:focus in collaboration with Goldman Sachs, Risk Management Solutions, and Swiss Re, but Texas's Ike Dike project would be the first to use them.

The concept relies on local governments collaborating with business and industry, and could be replicated across the country in areas at high risk from natural disaster. Miami could sell resilience bonds to help finance seawalls to protect hotels, condominiums and other pricey real estate lining its coast, Vajjhala said.

"The market is overcapitalized at the moment so there is lots of hungry capital looking for a home,'' RMS's Stander said. "This is a good time to be thinking about innovative risk finance and project finance."

Even so, Houston would be betting big on an untested model, and many obstacles remain before a deal is done, including getting industry on board.

Evolving Project

Companies generally support the idea of a coastal barrier. But even DowDuPont Inc., which operates the largest chemical complex in the western hemisphere on the coast south of Houston, remains noncommittal about pitching in on the financing: "We look forward to actively engaging in discussions about the project as they evolve," said Rachelle Schikorra, a company spokeswoman.

Other experimental financing models could still emerge. One possibility: a hybrid that blends catastrophe and municipal bonds to help finance infrastructure like the Ike Dike while eliminating the city's obligation in the event of a major hurricane, said Rowan Douglas at Willis Towers Watson Plc, a risk management consultant.

"It's a concept that is gaining quite a bit of traction," he said. "There is almost certainly going to be a movement in this direction relatively soon."

The Ike Dike has already spent almost a decade on ice, and even if financing is arranged, an army of environmentalists and Nimbys are likely to line up against the project. Houston is determined to press ahead. Harvey's floods only confirmed that governments need to start preventing disasters instead of just cleaning up after them, said Bob Mitchell, president of the Bay Area Houston Economic Partnership.

Meanwhile, Houston voters on Aug. 24 approved issuing $2.5 billion in debt to pay for hundreds of small flood-control projects, from property buyouts to storm water control. Odum, the Houston recovery chief, said the region may need to spend as much as $30 billion for flood mitigation in the coming decades.

Despite the daunting costs and technical challenges, the coastal spine "is not fiction," Houston Mayor Sylvester Turner said in an interview. "It's a project that should take place."

Bloomberg Economics

By Jack Kaskey

August 30, 2018

— With assistance by Joe Carroll, and Katherine Chiglinsky

The Week in Public Finance: Tax Hike for Teachers Kicked Off Arizona Ballot.

In an unexpected decision, the Arizona Supreme Court ruled that the ballot measure's wording was misleading to voters.

In a surprise ruling in Arizona, a proposed income tax hike to restore education funding has been knocked off the November ballot. Had the measure gone before voters and passed, it would have nearly doubled the state's income tax rates on the wealthy and made Arizona the first red state to pass a millionaire's tax.

Instead, the Arizona Supreme Court ruled this week that the wording in the petition to get the measure on the ballot was misleading because it termed the tax increase as a 3.4 percent and 4.4 percent hike. A more accurate portrayal would have been to say the tax rate would be raised by those amounts in percentage points. "When you go from 4.5 percent to 9 percent, that's a 98 percent increase," says Garrick Taylor of the Arizona Chamber of Commerce. "Had that been disclosed to voters, I'm not so sure it would have [as much] support."

Backers of the measure, which largely includes teachers and administrators, called the decision an "utter outrage." In a statement issued hours after the ruling, the Invest in Education Committee, which collected signatures for the measure, characterized it as a politically motivated move to protect the elite. "Any politician who has been part of this effort to stifle the will of the voters will be held accountable and pay the consequences in November," said committee co-chair, Joshua Buckley.

"Our school children deserve better and our fight will continue."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 31, 2018

The Risks and Rewards of High-Yield Municipal Bonds.

Amid low interest rates, clients looking for a tax break and more income may be tempted to consider high-yield municipal bonds.

The yield for a 10-year muni bond rated BAA was 3.27% as of Aug. 10, and yields for 10-year-plus BBB-rated munis were well past 4%. The bonds are exempt from federal, local and state taxes, pushing the effective yield higher for investors in upper tax brackets.

Although high-yield munis may be the right move for some clients, advisors should help them carefully weigh the benefits and risks before taking the plunge.

"High-yield munis can play a role in a diversified portfolio for those investors who are in higher tax brackets," says Chris Zaccarelli, chief investment officer at Independent Advisor Alliance in Charlotte, North Carolina.

Gregory Hahn, CIO and president at Winthrop Capital Management in Indianapolis, agrees, but cautions that advisory clients look before they leap.

"Municipal bonds are one of the safest fixed-income investments you can make, but when a bond trades cheap, it trades cheap for a reason," he says. "So, it's important to understand what that reason is."

Advisory clients should know where the revenue from a high-yield muni bond is coming from, bond experts say.

"Is the tax revenue going to be enough to support the project?" Hahn asks.

Bonds backed by a dedicated revenue stream, such as bridge tolls, parking authorities, sewers or water are often viewed more favorably than general obligation bonds coming from municipalities relying on anticipated revenue from budgets, he says.

"Tax revenue from multiple sources is a red flag," Hahn says.

What's more, municipalities may not get the revenue they intended, and budgets may not get approved or renewed annually, bond experts say.

Advisors should also make sure that clients considering high-yield munis carefully research bonds backed by projects such as hotels, nursing homes or sports stadiums.

Factors to consider include demand for the service, local demographics, management's track record and whether the project is part of a national chain or a local one-off, bond experts say.

Another caveat: high-yield muni bonds are unlikely to be insured. And even if they are, the underlying risk is not completely mitigated, Hahn says.

Zaccarelli cautions advisors to be wary of private-activity bonds, which are subject to the alternative minimum tax.

“These bonds may be federal- and state tax-free, assuming you are taxed in the state that issued the bonds, but they are still counted as taxable income for AMT purposes,” he says. “While this only applies to those taxpayers in higher tax brackets who are subject to the AMT, they are the ones most often looking for municipal-bond income.”

The high-yield muni market was jolted by the Puerto Rico debt crisis this year, when ripple effects from the biggest muni bankruptcy in U. S. history shook investor confidence in lower-rated bonds.

Especially upsetting was a judicial ruling that issuers of several Puerto Rican special revenue bonds under Chapter 9 bankruptcy protection were not required to continue paying bond holders.

In a report issued by Franklin Templeton Investments, “Fundamental Changes That No Muni Investor Should Ignore,” the company said that as a result of Puerto Rico’s default, it would not purchase “general fund appropriation debt from cities, counties or states that in our view are facing unsustainable structural budget situations.”

Specifically, Franklin Templeton said that it divested its holdings in bonds from Chicago public schools, the city of Chicago and the state of Illinois.

The market has since recovered, but a number of investors, including Zaccarelli, remain wary of Puerto Rican bonds.

“Personally, I would avoid Puerto Rico, as that is more of a distressed situation and not just a notch or two below investment-grade,” he says. “However, other high-yield municipal bond opportunities, such as those from Illinois or Connecticut, are likely to work out better.”

Hahn is bullish on a taxable high-yield bond issued by the Casino Reinvestment Development District of Atlantic City (New Jersey), backed by the Hard Rock Casino. Rated BB by Standard & Poor’s, the bond yields 5.46% and is due in 2025.

“Because of the downturn in Atlantic City gaming over the past 10 years, revenue, including sales tax, liquor and gaming are down sharply, and the city was close to bankruptcy,” Hahn says.

“The Hard Rock Casino just opened in the old Taj Mahal, and Atlantic City is going through a resurgence,” he says. “This issue is backed by parking revenue and trades around par, offering a good relative value for investors.”

Financial Planning

By Charles Paikert

August 31, 2018

[The Muni-Bond Market Loves You When Google Is Your Top Taxpayer.]

- **Mountain View district sells some bonds for below AAA yields**
- **Sale illustrates the strong demand for scarce California debt**

You can get a good deal in the municipal-bond market when Google is your biggest taxpayer.

The Mountain View-Los Altos Union High School District, which operates schools for more than 4,400 students in Silicon Valley, sold $100 million in AAA rated bonds backed by property taxes in the wealthy enclave. But some of the securities sold for higher prices than even its gilt-edged rating suggests: Those due in 2022, for example, were priced for a yield of 1.5 percent, 37 basis points less than the rate charged the most credit worthy municipal borrowers, according to data compiled by Bloomberg.

Investors have gobbled up tax-exempt bonds issued by governments in California to drive down their tax liability, either because of their sizable fortunes or to offset the effect that the limit on state and federal tax deductions will have on their federal returns. At the same time, the securities have been hard to come by, with debt sales by issuers in the state dropping by 30 percent this year.

In the case of Mountain View, the headquarters of Google parent Alphabet Inc., the school district may have benefited from the massive wealth in its own backyard.

The median home value in Mountain View has risen by about 22 percent over the past year to $1.9 million, according to Zillow Inc. The assessed valuation of property in the district rose 9 percent to $48.4 billion in fiscal 2018, almost double what it was a decade ago, according to bond offering documents.

The bonds will be used to help teach future coders and software engineers by modernizing science and technology classrooms for “21st-century learning” and to accommodate growing enrollment at the district. It’s the first installment of a $295 million sale approved by voters in June.

Bloomberg Business

By Amanda Albright

August 30, 2018, 9:19 AM PDT

[It’s Trump, Not Just the Fed, Driving the Short-Term Muni Frenzy.]

- **One trader says investments timed for 2020 presidential vote**
- **Democrat victory could trigger rollback to Trump’s tax changes**

It’s not just rising rates. It’s Trump, too.

That’s what Jason Ware, head of trading at 280 CapMarkets in San Francisco, offers as an explanation of short-term municipal bond yields, some of which are holding near a four-year low relative to Treasuries.

The high demand for debt maturing within three years is typical at a time when the Federal Reserve is raising interest rates and investors are seeking a refuge from price declines.

But many buyers are timing their investments to what they expect to be the end of Trump's presidency after the 2020 election, Ware said in an interview. They think that Trump's policies affecting municipal bonds, such as the limit on state and local tax deductions and the ban on a type of refinancing, would be vulnerable to rollbacks. The short maturities mean they will get their cash back to invest elsewhere.

"If Trump is out of office and a Democrat is elected, some of this will be reversed," he said, adding that he doesn't necessarily share that view. "There is a thought out there that will take place."

Bloomberg Markets

By Romy Varghese

August 31, 2018, 6:27 AM PDT

— With assistance by Amanda Albright

Amazon HQ2: How Did We Get Here? What Comes Next?

Sometime in the coming weeks Amazon will announce a short list of U.S. cities in which it will consider placing its new $5 billion, 50,000-person second headquarters. It is likely that these finalist cities will be large, prosperous, and located in the eastern part of the country.

Even in cities of a significant size and wealth, the arrival of what Amazon calls HQ2 will be transformative, even explosive. One only needs to look at the impact of HQ1 on Seattle to see why. Commentators in Seattle have taken to calling Amazon's expansion the "prosperity bomb," reflecting both the massive impact of the company's growth and the heat of the ensuing fights about how that growth should be managed and distributed across the city.

With the prospect of a second "prosperity bomb" being dropped in a major American city, it's not surprising that Amazon debates are raging. In fact, the Amazon HQ2 competition has focused the attention of a uniquely broad and diverse cadre of leaders across media, politics, business, and advocacy. Nationally, it has become a signpost for public policy issues ranging from antitrust to tax incentives to the need for policies that better support struggling communities. Locally, in each bidding city the response to HQ2 has simultaneously united a broad array of institutions around a shared economic development prize, and at the same time exposed fissures between elite-driven organizations and grassroots advocates about how bids should be executed, if at all.

Continue reading.

The Brookings Institute

by Joseph Parilla
Metropolitan Policy Program Fellow

August 28, 2018

[The World Bank Just Issued a Bond That Relies On Blockchain Technology From Start to Finish.]

The World Bank has launched a blockchain-only bond. The so-called bond-i—for "blockchain operated new debt instrument" and perhaps also for Sydney's famous Bondi Beach—is a two-year bond that was arranged by Commonwealth Bank of Australia and raised 110 million Australian dollars ($80 million.)

Investors included several Australian banks and state treasuries. Arunma Oteh, the World Bank treasurer, mentioned in a statement the additional help of King & Wood Mallesons, Mark-it, Microsoft and Toronto Dominion Securities.

The World Bank said the bond was the first in the world to be "created, allocated, transferred and managed through its life cycle using distributed ledger technology." However, that may not be quite accurate.

Continue reading.

FORTUNE

By LUCAS LAURSEN

August 24, 2018

Muni Market Recap: Hope for the New York MTA

The New York Metropolitan Transit Authority, NY MTA, has had a busy summer raising capital through the municipal bond market to improve a massive system that has suffered from underinvestment for many years. The NY MTA operates New York City's subways and buses, the Long Island and Metro-North commuter railroads, and several bridges and tunnels, and is one of the largest issuers in the muni market with approximately $39 billion in debt, according to the Bond Buyer.

Growing up as a New Yorker, the subway was an important infrastructure asset that gave me access to all New York City has to offer. My father-in-law drove a NYC Bus for 25 years and many other family members of mine worked or still work for the MTA. New Yorkers take the subway to work, to school, to the beach, to the airport, to the park, to visit the Bronx Zoo and so many other places. We have an amazing subway system that spans many neighborhoods and runs all night long.

When I lived in West London I remember the first time I missed the last tube back to West Ealing and had to ride around on the late bus which was less than ideal. It reinvigorated my appreciation for the New York City subway system. But over the past 10 years the subway has become more and more crowded, with greater and greater delays. On a recent morning, it was 90 degrees on a very crowded platform and I started thinking more deeply about investment in the system.

Continue reading.

Neighborly Insights

Posted 08/31/2018 by Homero Radway

A Blueprint for Financing Green Stormwater Infrastructure.

This is Part 1 of a two-article series. The second article will be published in September.

In a few Rust Belt cities that are seeking economic and social benefits, Greenprint Partners – formerly known as Fresh Coast Capital – is breaking new ground by financing fresh solutions for green stormwater infrastructure. It is using a combination of municipal, private and government resources. Its goals are to create a replicable model and expand the market.

According to a case study from The Kresge Foundation, "While science supports the use of green stormwater infrastructure, many municipalities remain reluctant to adopt these practices due to a lack of capacity, expertise and/or capital."

In an interview, Nicole Chavas, CEO and cofounder of Greenprint Partners, described the growth her company hopes to catalyze in this emerging market. It is currently working in Peoria, Youngstown, and St. Louis. It is considering a new project in Philadelphia.

Continue reading.

Conservation Finance Network

by Kat Friedrich

August 27, 2018

Public-Private Partnerships: When Will Reality Meet the Promise?

The promise of public-private partnerships (P3s) seems irresistible. The $4.5-trillion that the American Society of Civil Engineers says the U.S. must spend on at-risk infrastructure by 2025 is a backlog beyond the collective means of local, state and federal governments to fund and deliver.

Eyeing both need and return, the private sector is fast developing the required financing and capability, with U.S. and global investment funds looking for placement in physical assets. Dedicated infrastructure funds are raising hundreds of billions of dollars, sourced from pension and sovereign wealth funds and other investors "craving stable returns," said Bloomberg in a report last month.

Such funds had assets under management that totalled $450 billion at the end of 2017, up from just $7 billion in 2000, according to data provider Preqin.

But capital invested in infrastructure has lagged this year as investment deals dropped, says Pitchbook, which tracks them.

More than halfway through 2018, there have been just 19 transactions in the sector worth about $7.6 billion compared to last year, when investors completed 94 deals totalling about $36.6 billion, Pitchbook says.

Most investment is not channeled to U.S public infrastructure most in need, says Bloomberg, contending that assets already in private hands, such as electric utilities, gas pipelines and cell towers, are the biggest beneficiaries.

While 36 states have legislation that enables P3 projects, there have only been five P3 greenfield deals in 2017, mainly in transportation. according to Inframation Group, the London-based on line infrastructure finance analysis provider.

New Jersey is set to boost the numbers with Gov. Phil Murphy signing a bipartisan bill on Aug. 15 that broadens P3 investments beyond colleges and universities to other infrastructure including some statewide road projects. But other public owners remain reticent. Baltimore officials voted Aug. 6 to add to November ballots a measure that would make the city the first in the U.S. to amend its charter to preserve public ownership and control over its water and sewer systems and the largest to ban any sale or lease.

What's stopping the world's leading economy from becoming the world's biggest P3 market?

There are many barriers, but risk, both technical and commercial, is the main one. Many funds see it as risky to invest in greenfield projects under a complex legal and regulatory framework. Significant differences in requirements between jurisdictions result in high bid costs and high bars for market entry.

The lack of concerted federal action has not helped. While President Donald Trump's infrastructure program, once touted as a $1-trillion investment, would depend on outside private investment, the effort that might have included partial matching funds as state and local project incentives, has fallen to back-burner status until well into next year.

DJ Gribbin, the former Trump Administration infrastructure advisor who recently joined private equity firm Stonepeak Partners LP as a partner, said governments need to find ways to make it easier for the private sector to invest.

Public sector owners need to provide globally reasonable terms and streamline both regulations and the bidding process to attract private sector participants. Like their counterparts in Australia, they should be open to unsolicited proposals from private sector investors.

If the private entities will own or operate the asset for the long term, they should have incentive to create designs and outcomes that go beyond the brief and create additional benefits for the bidder—and for the wider community. Even under more traditional bidding arrangements, participants should be encouraged to move beyond conforming to a reference design by seeking added value through innovation.

The concept of 'asset recycling' offers another way to reduce risk and free up capital for governments to invest in a greenfield development. Using this approach, a government entity develops a project using design and build input from the private sector. When the asset is completed and/or operating, it is leased to the private sector over a longer tax-effective term.

Proceeds from the lease (perhaps 50 to 100 years paid in one installment) then fund the next wave of infrastructure projects. If the re-investment is close to the recycled asset, it can reduce taxpayer concern over the loss of public asset ownership.

Clear communication is key to success. Long-term leases of ports in New South Wales, Australia, have enabled the state government to invest in significant road and rail transportation projects near those ports.

But asset recycling needs a very critical element. By developing the project, the government assumes risk in the construction phase and some of the early stage demand. Past toll road projects in Australia placed this risk onto the private sector, which relied on self-developed traffic forecasts, with the wider road network economics outside proponents' control.

In a number of cases, this approach overestimated user demand for the new infrastructure and generated major pressure on the financiers, not to mention headline-grabbing lawsuits. Since P3 projects require the goodwill of private entities, risk allocation must be equitable and provide incentives for all parties to meet their obligations.

Maintaining transparency and simplicity is essential—not only for ethical reasons, but also to change assumptions and reallocate risk before the project fails. Project complexity could further shrink by separating contracts into specific delivery packages.

On a passenger rail project, hard-build infrastructure such as track foundations and stations can be split from signal technology systems and from customer service and maintenance operations to enable different companies to focus on what they do best.

While the private sector tends to provide greater service efficiency, communities have higher expectations for P3 projects and are likely to pounce on profit-making entities for any shortcomings or disruption in delivery. So it is important to acknowledge that infrastructure projects are not just financial instruments, but a way to support social and economic activities.

The business case for the project and the community engagement process should take into account those outcomes across the long-term.

Singapore relies on P3 to deliver water treatment and desalination infrastructure, growing the local industry into a global supplier of water technologies, with exports contributing more than $1 billion annually to the country's GDP. If each of the 50 states develops one P3 project annually, what industries would spring up as a result?

Municipalities and states understand the stresses their infrastructure is under, and should be given a guiding hand in matching local needs with global investors' demand for infrastructure assets.

If communities understood how they could have new hospitals, schools, bridges or water treatment plants with better service and without additional taxes or user charges that also could boost employment, what would they choose?

Engineering News-Record

by Richard Fechner, GHD

August 30, 2018

Richard Fechner, global leader of infrastructure investment & economics at GHD Advisory, part of consulting firm GHD, has led and supported asset transactions valued at more than $80 billion. He can be reached at Richard.Fechner@ghd.com

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[Municipalities May Regulate the Local Impacts of Pipelines Without Violating the Commerce Clause: Foley Hoag]

Foley Hoag Secures Victory for City of South Portland in Lawsuit Challenging its Clear Skies Ordinance

Federal Court Rules Statute Banning the Bulk Loading of Crude Oil Is Constitutional

Foley Hoag LLP successfully represented the City of South Portland, Maine in a federal lawsuit aiming to overturn the City's Clear Skies Zoning Ordinance. The U.S. District Court for the District of Maine issued its decision on Friday, August 24, 2018, finding that the local zoning ordinance, which prohibits the bulk loading of crude oil onto ships in South Portland's harbor, does not violate the Commerce Clause of the U.S. Constitution. The victory comes after three years of litigation.

In its decision, the Court concluded that "the City Council enacted an ordinance that would block a tar sands project like the one PPLC proposed because it had concerns about the air quality, water quality, aesthetics, and redevelopment risks of crude oil loading in general, and the transporting and coastal loading of crude oil derived from tar sands in particular." This is one of the first times that a federal court has ruled that cities and towns can prohibit crude oil pipeline and loading facilities through local zoning without being preempted by any federal statute or violating federalism principles in the Constitution.

South Portland prohibited the loading of bulk crude oil into ships on its waterfront in 2014, as domestic demand for imported oil was declining and production in the oil sands of western Canada was increasing. In December 2017, the Court ruled in the City's favor on eight of nine counts – that the ordinance was not preempted by the federal Pipeline Safety Act, the federal Ports and Waterways Safety Act, or the Maine Oil Discharge Prevention Law; it was not preempted by federal powers over foreign affairs or maritime commerce; it did not violate Portland Pipe Line's due process or equal protection rights; and it was not inconsistent with the City's Comprehensive Plan – but found that a trial was needed on the Commerce Clause claim. After five days of testimony, the Court has now ruled in the City's favor on the final claim, finding that that the ordinance "does not discriminate against interstate or foreign commerce on its face, in effect, or in purpose."

"Faced with the prospect of hundreds of thousands of barrels of crude oil being loaded onto marine vessels in the City and threatening the health of the residents and preventing redevelopment of the waterfront, the City Council prohibited this new activity. We are pleased that the Court upheld the ordinance," said Linda Cohen, Mayor of South Portland.

"The District Court conducted a painstakingly thorough review of the evidence, including hearing live testimony over five days, and concluded that the Clear Skies Ordinance was constitutional and not preempted by either federal or state law," said Jonathan Ettinger, a partner at Foley Hoag. "The Court appropriately recognized that this case was about protecting the health, safety and welfare of the residents of South Portland under its broad zoning powers and not about whether the oil came from Alberta or Augusta."

Foley Hoag is a Boston-based law firm with a leading environmental law practice. The team representing the City of South Portland was led by Ettinger and comprised of partner Euripides Dalmanieras and associate Jesse Alderman. Sally Daggett and Mark Bower of Jensen, Baird, Gardner & Henry in Portland served as co-counsel.

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