## Vacation Reading: 7 Books For Discerning Municipal Bond Investors

When I go on vacation, I take a stack of books with me. My wife rolls her eyes and shakes her head before pointing out the obvious: I've brought a semester's worth of reading for a week's worth of vacation. I sheepishly agree—but I bring them anyway. She brings one of those summer paperback beach-reads and goes through it cover-to-cover. I start several of my hardcover tomes and maybe finish one. Maybe.

This year the reading list is a bit more focused than usual since I am using some of the books in my Boston University public finance class this fall. I've read a couple of these before, so those will just be a refresher. Others I've always wanted to get to and sitting on the beach is as good a time as any.

Continue reading.

**Forbes**

by Barnet Sherman

Aug 4, 2019

## Municipal Bonds: A Holistic View Of A Community's Environment And Sustainability

*This is the fourth article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance helps the community. It appropriately started with Municipal Bonds: Investing In Our Communities. This piece looks at how municipal bonds fund green and sustainable initiatives with quantifiable results with community wide benefits beyond the environment.*

**Natures Resources**

Sensitive to the current impetus for sustainable environmental outcomes, municipalities seeking to demonstrate they are "green" are looking beyond environmental metrics. Sustainable environmental outcomes encompass the effective application and utilization of all public resources—natural, human, economic and technological—to improve service delivery and create sustainable outcomes in municipal operations and programs.

In rural Pend Oreille County (Moody's: Baa2; Standard & Poor's: NR) in northeast Washington, the key resource is the natural beauty of the Selkirk Mountain Range. The Public Utility District's Box Canyon Hydroelectric Project is owned by the people of the county, serving 13,100 residents with clean power. When the dam required upgrades to the turbines and generators, the District issued municipal Green Bonds and New Clean Renewable Energy Bonds to finance the project. The beneficial impact of this capital plant upgrade will last for many years, providing low-cost energy to the county's residents.

Continue reading.

**Forbes**

by Barnet Sherman

Jul 30, 2019

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## This Bill Could Save Rural Governments Millions in Infrastructure Financing.

**A proposal before Congress would expand a provision that gives small governments and districts access to cheaper financing.**

A new proposal in Congress could make financing infrastructure projects in rural America far more affordable.

Called the Municipal Bond Market Support Act of 2019, the bill would modernize a restriction on so-called bank-qualified municipal bonds that effectively limits small governments' access to cheaper borrowing rates in the municipal market.

The Government Finance Officers Association (GFOA) estimates that the proposed bill could save as much as $1.1 million in financing costs on a 15-year, $30 million bond issued by a small government. That translates into hundreds of millions of dollars in savings each year for small governments, nonprofits and districts across the country.

"Expanding the availability of bank-qualified bonds will help local governments and nonprofits afford critical construction projects and stimulate their economies, all while providing significant savings," Alabama Rep. Terri Sewell said after introducing the bill.

Small governments that don't issue debt in the municipal market very often tend to pay a premium on interest and borrowing costs because investors aren't familiar with them. In 1986, bank-qualified bonds were created to encourage banks to invest with these smaller, less frequent issuers by giving the banks tax breaks related to buying and holding the bonds. It also saved those municipalities money on borrowing costs because it allowed them to bypass the traditional underwriting system and sell their tax exempt bonds directly to local banks.

But only small governments that issue $10 million or less in bonds per calendar year can sell bank-qualified debt. In today's dollars, $10 million doesn't go very far. "Over the years, there's been a steadily shrinking universe of governments who are benefitting from the rules," says Municipal Market Analytics partner Matt Fabian.

Sewell and cosponsor New York Rep. Tom Reed want to push up the cap to $30 million and index it to inflation thereafter. Their legislation would also extend bank-qualified eligibility to borrowers who issue debt through a state or local finance authority.

Bank-qualified debt is a small part of the $3.7 trillion municipal bond market, but the projects they finance have a big impact for their municipalities.

In Ohio, for example, roughly $650 million in total average bank-qualified debt has been issued each year since 2009. Much of it has been for telecommunications projects, including expanding broadband access to rural Americans.

In Alabama, about half of the bank-qualified debt issued each year goes toward water and sewer projects, as well as primary and secondary education.

While there appears to be strong support for the bill from leadership in the House Committee on Ways and Means, it's unclear how far an infrastructure-related bill will go in a Congress that has dragged its feet on infrastructure financing and funding in general.

But some believe this bill has a good chance of going forward with or without a larger infrastructure package behind it. "Everybody's running for office this year," says Emily Brock, director of GFOA's Federal Liaison Center. "They've been talking about infrastructure for the past two years, but Congress hasn't done anything yet. This is one thing that would satisfy that need."

If it does pass, Fabian notes that it's unlikely to have a significant impact immediately on the muni market, given the historically low interest rates and the current aversion many governments have toward increasing their debt load. "In the near-term, there's probably a minimal effect on the muni market," he says. "But in the longer term, it could cultivate stronger capital access for these smaller issuers."

GOVERNING.COM

BY LIZ FARMER | AUGUST 2, 2019 AT 4:00 AM

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## [KBRA Releases Comment – Municipal Default History: Rating Ceilings Do Not Hold Up]

A rating ceiling is an upward limit on a bond rating based on its linkage to the rating of the underlying municipality's general obligation credit. This linkage is based on the view that there is a high likelihood that, should the underlying credit enter bankruptcy or a restructuring process, all of the issuer's obligations will be drawn into that process. In KBRA's view, this approach is problematic because the prospect of bankruptcy among most municipal credits is highly unlikely and for some—like states—legally impossible. KBRA believes that, due to the low default rate in the municipal market, arbitrary rating ceilings distort risk.

Municipal defaults are very rare, with S&P and Moody's pegging municipal bond default rates at a fraction—about 1/20th and one-tenth, respectively—of the default rate for corporate bonds. At the same time, ratings issued by legacy rating agencies have a checkered record of anticipating municipal defaults. Even speculative-grade municipal ratings show low default rates, which suggest inadequate correlation and further undermines the rationale for rating ceilings.

KBRA believes that rating ceilings provide a false sense of comfort. A case in point are those which mandate the ratings of special revenue bonds must remain within a prescribed range relative to the underlying general obligation rating. This implies a level of precision in municipal credit ratings that is not supported by their history. These ceilings also needlessly limit the rating for many credits, regardless of the additional protections that may be provided. Furthermore, these limitations are a particularly poor fit for states, which cannot file for bankruptcy.

- [Municipal Default History: Rating Ceilings Do Not Hold Up]
- [Rating Ceilings Subvert Fundamental Municipal Credit Analysis]

**Business Wire**

July 25, 2019

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## Moody’s Buys Climate Data Firm, Signaling New Scrutiny of Climate Risks.

Moody’s Corporation has purchased a controlling stake in a firm that measures the physical risks of climate change, the latest indication that global warming can threaten the creditworthiness of governments and companies around the world.

The rating agency bought a majority share in Four Twenty Seven, a California-based company that measures a range of hazards, including extreme rainfall, hurricanes, heat stress and sea level rise, and tracks their impact on 2,000 companies and 196 countries. In the United States, the data covers 761 cities and more than 3,000 counties.

“We are taking these risks very seriously,” said Myriam Durand, global head of assessments at Moody’s Investors Service, who said the purchase would allow its credit analysts to be more precise in their review of climate related risks. “You can’t mitigate what you don’t understand.”

The purchase is the latest in a series of moves by rating agencies to better account for the effects of climate change on the ability of governments to pay back the money they borrow by issuing bonds. Global warming can threaten that ability in a variety of ways.

Sudden shocks such as floods, wildfires or storms can hurt businesses and send residents fleeing, taking away the tax revenue that governments use to pay their debts. And longer-term threats — such as rising seas or higher temperatures — can make those places less desirable to live in, hurting property values and, in turn, the amount raised by taxes.

Rating agencies translate those risks, along with more traditional factors such as a government’s cash flow and debt levels, into a credit rating, which communicates to investors the odds that a government will be unable to repay its bondholders. Lower ratings generally mean that borrowers need to offer investors a higher return to account for that risk.

Following a string of deadly hurricanes and wildfires in 2017, Moody’s, along with S&P Global and Fitch Ratings, issued reports warning state and local governments that their exposure to climate risk could affect their credit ratings.

Still, the agencies have so far been reluctant to follow through on that threat. There have been few examples of cities or counties getting a lower rating because of climate risks. And some of the coastal communities that are most exposed to global warming have continued to receive AAA scores, the highest possible rating.

Yet the investors who buy those bonds have taken notice of those threats. Investors’ odds of citing climate change as important to the municipal bond market tripled between 2018 and 2019, from 6 percent to 19 percent, according to Smith’s Research & Gradings. More than half of investors surveyed said that state and local governments were “hardly prepared” for climate change.

In response, investors have pushed the rating agencies to be more transparent about how they incorporate climate risks. Some of those investors praised the move by Moody's, saying it showed the agency is taking climate change seriously.

Eric Glass, a portfolio manager at Alliance Bernstein, called the purchase "a step in the right direction."

"Moody's clearly drew the conclusion that they don't have the internal expertise and have gone outside to secure it," Mr. Glass said.

Neuberger Berman, an asset management company that has criticized rating agencies for not doing enough to consider climate risk, also praised the move.

"We look forward to 427's physical climate risk data being reflected in credit ratings," said Jonathan Bailey, head of environmental, social and governance investing for Neuberger Berman in an email.

For local officials in places most exposed to climate risks, the increased attention to these concerns will mean ever harder questions when they want to issue bonds, according to Adam Stern, senior vice president and co-head of research at Breckinridge Capital Advisers.

"The degree of disclosure is going to have to get better," Mr. Stern said. "The demand for this kind of information does plainly seem to be growing."

There are steps that officials can take to cut their odds of climate related downgrades. Moody's has said that cities and counties with plans for reducing their exposure to climate risks, by updating their infrastructure for example, could see their ratings improve as a result, or at least not deteriorate.

The result could be a spur to action for cities and counties that have so far overlooked the risks of climate change, according to Jesse Keenan, a faculty member at Harvard's Graduate School of Design who advises governments on climate adaptation. He said the data produced by Four Twenty Seven can help governments know what steps are most likely to reduce the physical risks associated with climate change.

Still, some cities face climate threats so severe that there's not much they can do to alleviate it, said Mr. Stern, of Breckinridge. The looming problem for rating agencies, and for investors in general, is what to do then.

"How do you deal with an issuer that is doing everything you would think they should be doing, but nonetheless has a long-term risk profile such that the die may be cast?" Mr. Stern asked. "The market is nowhere near being able to price those risks."

**The New York Times**

by Christopher Flavelle

July 24, 2019

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## [Ultralow Interest Rates Bring Opportunity and Danger to States.]

**What's good for funding infrastructure is bad for pensions—and in the long run, bad for**

**infrastructure, too.**

It's no secret that U.S. infrastructure is in dire need of an overhaul. The American Society of Civil Engineers estimates a lack of investment will cost almost $4 trillion in gross domestic product by 2025. Measured per household, that's a loss of $3,400 a year thanks to congested roads, overworked electric grids, and other deficiencies.

With that in mind, the global trend of debt yields falling below zero seems like a massive windfall for U.S. states and cities. After all, they borrow for public works projects in the $3.8 trillion municipal bond market, where rates are within spitting distance of all-time lows. Just about every state can borrow at less than 2% for 10 years—a better rate than the federal government can get. If U.S. Treasury yields drop to zero, as some prognosticators expect, it stands to reason that those for Florida, Maryland, and Texas will go down, too.

But this is hardly a free lunch. With $3 trillion in pension assets, states also face a cumulative unfunded liability of more than $1 trillion, even after the longest economic expansion in U.S. history. What's worse, that shortfall likely underestimates the problem, as most plans assume annual returns of 7% to 8%. Were the U.S. to enter a recession, with bonds already yielding next to nothing, it would become virtually impossible to meet that target. Indeed, the two largest U.S. pension funds, representing California's public employees and teachers, respectively, each reported in July that they came up short in 2018, when the S&P 500 was down for the year.

By keeping interest rates at rock-bottom levels, central banks have made it ultra cheap for governments and companies to borrow, but they've eradicated any semblance of safe returns. This has major implications for defined-benefit pension managers, who are supposed to purchase assets to match long-term liabilities. In the 1990s, that was easy enough to do with 30-year Treasury bonds. The average yield throughout the decade was exactly 7%—mix in a little exposure to equities, real estate, and hedge funds, and it was a virtual lock to beat targets. But those higher-yielding bonds will mature soon, and reinvesting at less than half that rate will be painful. As with individuals saving for retirement, the only two choices are to contribute more money now or take on additional risk. With many states already cash-strapped and allergic to raising taxes, it's not hard to guess which option is politically more palatable.

Unless the risk-asset rally lasts forever, though, loading up on equities and alternatives won't be a long-term solution. More likely, states and cities will eventually divert a larger share of their budgets to supporting pensions. That means less funding for infrastructure.

For those who need to borrow and save simultaneously, the drift toward negative yields is very much a double-edged sword.

**Bloomberg Businessweek**

By Brian Chappatta

July 29, 2019

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## World of Tax-Exempt Bank Direct Purchases is Changing.

Over the past decade, tax-exempt bank direct purchases became an increasingly popular form of financing in the municipal market as an alternative to traditional public bond offerings. The trend was initially driven by several factors including the demise of some bond insurance providers, punitive bank capital charges for variable rate demand bond credit support products, and bank appetite for loan growth. Issuers compelled by the lower costs of issuance and ease of execution further fueled this trend. Per the Federal Deposit Insurance Corp., bank municipal debt holdings (separately categorized from municipal "securities") totaled $62 billion as of December 2009. By December 2017, reported holdings had more than tripled to $190 billion.

Post the U.S. Tax Cuts and Jobs Act of 2017, the trend in total bank holdings and the makeup of the universe of bank participants (national versus regional banks) is starting to evolve with holdings dropping to $185 billion as of the end of the first quarter in 2019. This is showing the first signs of a slow down since 2009.

Several of the largest holders have experienced a decrease in their portfolios by over 10%. Drivers for the decrease include borrowers experiencing increased costs for yield adjustment provisions in their bank direct purchase structures and reduced benefit to banks due to the drop in the corporate tax rate to 21%. Further, many borrowers have elected to move back to public markets structures to capitalize on favorable trends driven by increased demand in the market – municipal bond funds have seen over $25 billion dollars in net cash inflows since the beginning of 2019 per TM3. In addition to driving low tax-exempt rates, the strong market conditions are helping deliver more favorable covenant and security structures, particularly for borrowers rated in the lower and sub-investment grade categories.

While some borrowers have restructured their bank-held issues, many borrowers still have not. Reasons for this include having initially negotiated out increased cost language due to tax reform, bank partners temporarily waiving or renegotiating the increased cost rate, or the bonds being in a fixed rate mode, making it difficult to implement a higher rate without triggering a tax "re-issuance" event. Many borrowers will eventually need to revisit their deals with their bank partners as they approach the end of their commitment period, which is typically well within the final bond maturity.

As borrowers continue to revisit their bank structures, there are several considerations as they potentially make changes by moving to the capital markets or another bank partner that is willing to absorb some or all of the increased cost for holding tax-exempt debt.

The potential transition includes multiple documentation and cost considerations, primarily driven by the ability to convert modes within the existing documents or the need for a full refunding of the bonds. While many of the bank deals were completed with "multi-modal" indentures, the ability to convert modes may be more complex than anticipated. Additionally, to the extent existing bonds are transferred, there are documentation concerns some bank partners may have dealing with their determination of ability to book the debt as a "loan" or "security" based on the initial documents that were utilized. Lastly, many of the bank deals are structured in a LIBOR indexed mode, which may create challenges as LIBOR is phased out.

Separate from documentation considerations, new requirements to disclose other debt obligations under the SEC Rule 15c2-12 will also lessen the difference between public and private deals on an ongoing disclosure basis. While the new disclosure rule may not drive any borrower decision between the structures, it is an additional consideration for which borrowers need to be prepared.

As the market continues to evolve after tax reform and the banks and borrowers adjust, the most common pros and cons of private versus public debt will remain mostly the same. While bank direct purchases will continue to be a popular alternative for many borrowers, given the structuring flexibility, ease of execution, and cost benefits, the market and documentation standards will continue to evolve. Borrowers may be well served to revisit their deals sooner than later to best understand their options and start planning to achieve their institutional goals.

By Todd Brewer

BY SOURCEMEDIA | MUNICIPAL | 07/24/19 09:53 AM EDT

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## Vanguard, Nuveen, Goldman Win the Fight for Cash Flooding Muni Funds.

- **Five firms get about 80% of the inflows into muni mutual funds**
- **'It's the Amazon effect,' municipal bond analyst Tom Doe says**

A handful of the biggest firms on Wall Street are landing the vast majority of cash pouring into the municipal-bond market.

Vanguard Group Inc.'s mutual funds focused on tax-exempt debt have received about $12.7 billion this year, or nearly a third of the $39.1 billion that's been added to such funds, according to data compiled by Bloomberg. TIAA's Nuveen, Goldman Sachs Group Inc., BlackRock Inc. and MacKay Shields LLC received another $18.2 billion, leaving those five companies with about 80% of the new cash.

The figures show that the biggest Wall Street firms are benefiting the most from the rush this year into municipal bonds, illustrating the difficulty that smaller companies may have in keeping up with industry behemoths that have widespread brand recognition and the ability to charge lower fees.

"It's the Amazon effect in the municipal market," said Tom Doe, president of Municipal Market Analytics, an advisory firm. "If you're the number one performer that doesn't necessarily correlate with an increase in assets. It's not a performance vehicle, it's branding and costs."

Higher-income Americans have poured cash into municipal mutual funds this year as the federal limit on state and local tax deductions leaves some looking for new ways to drive down what they owe. Such funds have attracted new investments every week since early January, leaving them on pace for a potentially record-setting year.

That's coming just as the business is showing signs of becoming increasingly concentrated. In October, Pacific Investment Management Co. agreed to buy Gurtin Municipal Bond Management, a specialist overseeing about $12 billion of the securities for high-net-worth investors. That same month, Invesco Ltd. announced the acquisition of OppenheimerFunds Inc. , given the combined firm a major share of the municipal junk-bond market.

Doe said that the industry's concentration could make a retreat from the municipal market more problematic if it forced the major firms to sell at the same time in order to meet investor redemptions.

"In any market if everyone is investing in a similar way, if you don't have a diversity of participants, you are vulnerable to disruption and less liquidity," he said.

While it makes sense that some of the biggest firms are pulling in the most cash, their share of this year's inflows is bigger than their overall share of the industry's assets, indicating expanding leads over rivals. For example, Vanguard, which accounts for about 23% of municipal mutual fund assets, received about 32% of the year's new investments. Nuveen pulled in 16%, double its market share.

"I think you've got very established muni teams and which have been gathering assets and managing them successfully for quite sometime," said Beth Foos, an analyst with Morningstar Inc. "Folks may have a little bit more confidence in those large teams that could do that bottom up research to find some dislocation in the muni market when spreads are this tight."

J.R. Rieger, author of trade newsletter the Rieger Report, said the concentration is part of a broader trend across other investment classes, including Treasuries and corporate bonds.

"You see a migration to lower cost funds at bigger firms versus the higher manager fees for active managed portfolios," he said.

**Bloomberg Markets**

By Danielle Moran

July 23, 2019, 10:30 AM PDT

*— With assistance by William Spada*

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## The Municipal-Bond Market Is Now Controlled by Just a Few Firms.

**Concentration benefits firms like Nuveen and Vanguard, as well as some investors, but critics see risks if the market cools**

A few behemoths are increasingly dominating the municipal market, helping to lower prices for many investors but also sparking worries about concentration and influence.

There has been a mammoth shift in the $4 trillion muni market over the past decade as investors have increasingly used professional money managers to invest in both high- and low-grade state and local government debt. Mutual-fund holdings of municipal bonds now total $738.6 billion, according to Federal Reserve data, a more than 50% increase since 2009.

This shift has been particularly beneficial to firms like Nuveen LLC and Vanguard Group. Since 2010, more than one in three new dollars going to muni funds classified as high yield has gone to Nuveen, according to an analysis of Morningstar Direct data through June. Over that time, almost a third of new money going to all muni funds has gone to Vanguard.

Continue reading.

**The Wall Street Journal**

By Heather Gillers and Gunjan Banerji

July 24, 2019 5:30 am ET

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## Fitch Ratings Proposes Rating Cap for Some U.S. Municipal Debt.

Link to Fitch Ratings' Report(s): Exposure Draft: U.S. Public Finance Tax-Supported Rating Criteria

Fitch Ratings-New York-23 July 2019: An unexpected decision by the United States Court of Appeals earlier this year has triggered a proposed change to how Chapter 9-eligible entities' special revenue debt is rated in the event of a municipal bankruptcy, according to a criteria exposure draft released today by Fitch Ratings.

While the rating impact of Fitch's proposed changes would be limited (less than 20 ratings to be affected), the magnitude of the First Circuit ruling back in March cannot be overstated. Despite a proven track record of special revenue debt being paid through prior municipal bankruptcies, the March ruling has effectively rendered legal protections for special revenue debt uncertain going forward.

"There's still a possibility that the First Circuit's decision could be overturned, but the fact that the decision has so far passed through two courts substantially erodes the ability to confidently say that any legal protection can provide full insulation from the operating risk of the related municipality," said Managing Director Amy Laskey.

As such, Fitch proposes a ratings cap for special revenue debt and true sale structures relative to a municipality's Issuer Default Rating (IDR) of up to six notches above the IDR depending on the strength of the legal security. The new proposal will not affect most local government security ratings, which will remain either lower than or capped at the related government's IDR. Fitch's proposed changes will also not affect U.S. state bond ratings since they are not Chapter 9-eligible.

In response to the First Circuit Court ruling, Fitch placed seven U.S. public finance ratings that were more than six notches higher than the IDR of the related local government on Rating Watch Negative earlier this year. Fitch expects to resolve those Rating Watches if the proposed criteria revisions are adopted. Depending on the level of feedback it receives from the market, Fitch intends to finalize its amended ratings approach to special revenue and true sale debt later this year.

Fitch's "Revised Approach to Local Government Special Revenue and True Sale Security Ratings" is available at www.fitchratings.com or by clicking on the above link.

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Additional information is available on www.fitchratings.com

## Fitch Ratings: Medians Rebound for U.S. NFP Children's Hospitals

Fitch Ratings-Austin-22 July 2019: Though U.S. not-for-profit children's hospitals are not out of the woods yet operationally, margins and profits have rebounded quite nicely over the last year according to Fitch Ratings in its 2019 medians special report.

Profits for children's hospitals stabilized while leverage improved even as capital spending increased to 161.1% in fiscal 2018 from 145.9% in fiscal 2017. "The need for high-quality, state-of-the-art services is a capital-intensive endeavor," said Director Richard Park. Operating margins rebounded to 5.6% in fiscal 2018 after falling to 4.5% during the prior year. "Children's hospitals have effectively controlled expenses over the last year while expansion projects have been moderate in scope and focused largely on ambulatory and service-line growth," said Director Richard Park.

That said, the sector is still susceptible to operational stress with potential cuts to Medicaid Disproportionate Share Hospital (DSH) funding starting Oct. 1. In addition to children's hospitals' high exposure to Medicaid, children's hospital volumes may be affected over time by a combination of increasing competition and declining births in the nation.

"Strong political and public-policy support for the specialized pediatric services provided means children's not-for-profit hospitals should remain insulated from the impact of any decreases to Medicaid and supplemental reimbursement," said Park.

Fitch's "2019 Median Ratios for Not-for-Profit Children's Hospitals" is available at www.fitchratings.com.

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

Read the Criteria.

## S&P: U.S. Charter School Rating Actions And Outlook Revisions, Second-Quarter 2019

The following table summarizes S&P Global Ratings' quarterly bond rating actions, outlook revisions, and affirmations for U.S. charter schools. We based the credit rating actions, outlooks, and affirmations are based on our criteria, U.S. Public Finance Charter Schools: Methodology And Assumptions.

Continue Reading

Jul. 24, 2019

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## S&P: U.S. Higher Education Rating Actions, Second-Quarter 2019

The following table summarizes S&P Global Ratings' quarterly bond rating actions for its U.S. non-profit colleges and universities. All credit rating actions are based on our Methodology: Not-Fo--Profit Public And Private Colleges and Universities.

Continue Reading

Jul. 24, 2019

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## Start Preparing Now for the End of Libor-Linked Loans, Securities.

**That's what New York Fed President John Williams, Fannie Mae and Freddie Mac officials and Wall Street executives recommended at a recent SIFMA briefing.**

If your clients have adjustable-rate debt or in floating-rate corporate or municipal bonds, start preparing them now for the end of Libor. The London Interbank Offered Rate, which is the reference rate for these and other loans and bonds, is due to expire at the end of 2021 and be replaced with another reference rate, which in the U.S. will mostly likely be the Secured Overnight Financing Rate (SOFR), developed by the Federal Reserve Bank of New York.

"2022 feels like it's a long way away, but believe it or not 901 days can disappear, almost in an instant," New York Fed President John Williams said at a Libor Transition Briefing in New York City on July 15 held by the Securities Industry and Financial Markets Association. That's less than the number of days Donald Trump has been president of the United States.

"Don't wait until Jan. 1, 2022 to manage your business' transition away from Libor because it's going to be too late," warned Williams. "The clock is ticking."

Currently an estimated $200 trillion worth of financial contracts are based on a spread to U.S. dollar Libor. The rates, set by a panel of private British banks, have lost legitimacy following revelations in 2012 that several banks had colluded to manipulate Libor, costing billions in overpayments by borrowers.

The new SOFR rate is based on $1 trillion worth of U.S. Treasury overnight repurchase agreements (repos) per day. In contrast, the three-month Libor is based on $1 billion worth of transactions. On July 18, the three-month Libor was 2.28%; the overnight SOFR was 2.46%.

Williams said the biggest challenge of Libor's demise isn't liquidity of the lack of a term rate — SOFR is an overnight rate unlike Libor, which had forward term rates of 12 months or less — but "the willingness on the part of the market to stop using Libor. "We need a mindset shift where firms realize that every new U.S. dollar Libor contract written digs a deeper hole that will be harder to climb out of."

Williams suggested that companies issuing Libor-linked products include "robust fallback language" in contracts "so that if Libor ceases to exist, chaos does not ensue."

That is one of several recommendations endorsed by the Alternative Reference Rates Committee (ARRC), which is leading the transition effort from Libor to SOFR. The committee, consisting of private-market participants and convened by the Federal Reserve Board and New York Fed in cooperation with the U.S. Treasury, Commodity Futures Trading Commission and Office of Financial Research, also recommends that consumer products linked to SOFR, such as adjustable-rate mortgages, use an average of SOFR rates over a period of time rather than individual overnight rates because averages are less volatile.

The committee is still working on contract language and structures for SOFR-indexed home equity loans, reverse mortgages, car loans and credit card rates.

"There's still a lot of work to do, " said Timothy Kitt, head of pricing and execution at Freddie Mac, who also spoke at SIFMA's Libor Transition Briefing.

In the meantime advisors whose clients invest in variable-rate securities linked to Libor, have outstanding loans linked to Libor or are considering new Libor-linked loans or investments can keep up with developments during the transition through the AARC website, where they can also comment on "consultations" that ask questions about proposed structures, SIFMA's SOFR primer and briefs and SEC publications.

SEC staff recently published a statement on the Libor transition encouraging market participants to "proactively manage their transition away from Libor."

Among the statement's many recommendations for advisors:

- Consider the effects of Libor's discontinuation when recommending products to clients or monitoring them for clients.
- Whether to disclose risks of the transition to investors after considering the impact on liquidity and value of their investments.

According to SIFMA, 27 institutions have issued more than $136 billion notional in floating-rate securities tied to SOFR as of June of this year, in June and outstanding SOFR-linked notional across all products has grown from less $100 billion in May 2018 to over $9 trillion as of April 2019.

**ThinkAdvisor**

By Bernice Napach | July 22, 2019 at 10:58 AM

## SEC Staff Encourages Proactive Approach to Libor Transition Issues.

On July 12, 2019, the staff of the Division of Corporation Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant (Staff) of the Securities and Exchange Commission (SEC) issued a public statement regarding the expected transition away from the London Interbank Offered Rate (Libor) as a benchmark rate. In particular, the Staff's statement encourages market participants, including public companies, investment advisers, investment companies and broker-dealers, to proactively assess material risks as they transition away from Libor.

Companies should consider the Staff's guidance and overarching theme of transparency on an ongoing basis as they prepare periodic reports. Below is a brief summary of the key takeaways from the Staff's statement.

**Background**

Libor is a floating-rate benchmark that has served as the primary reference rate for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives, for decades. Libor's susceptibility to manipulation, as exposed by a number of scandals in 2012, along with changes in the very nature of the transactions underlying it, has led to concerns that Libor is an increasingly unreliable benchmark. As a result, a global effort is underway to discontinue the use of Libor by the end of 2021. A number of banks are expected to stop reporting information used to set Libor after 2021. As regulators and market participants seek to avoid business and market disruptions resulting from the discontinuation of Libor, implementing alternative reference rates in advance of the discontinuation has become vital.1

The SEC has expressed urgency regarding preparation for the transition. In a press release announcing the Staff's statement, SEC Chairman Jay Clayton observed that "the transition away from LIBOR is gaining some much needed traction, but, as the [S]taff's statement makes clear, significant work remains." Clayton drew particular attention to the Staff's observation that "for many market participants, waiting until all open questions have been answered to begin this important work likely could prove to be too late to accomplish the challenging task required."

**Key Takeaways**

The Staff's statement notes that the Staff is actively monitoring the extent to which market participants are identifying and addressing risks related to the transition from Libor. The Staff highlighted a number of specific considerations.

**Existing Contracts**

With respect to companies' existing contracts, the Staff advised companies to identify those that extend past 2021 to determine if there are any interest rate provisions that reference Libor and to consider potential uncertainty in the interpretation of these contracts. In particular, the Staff advised that companies consider the following questions as they seek to understand and mitigate any risks related to the transition from Libor:

- Do you have, or are you or your customers exposed to, any contracts extending past 2021 that reference Libor? For companies considering disclosure obligations and risk management policies, are these contracts, individually or in the aggregate, material?

- For each contract identified, what effect will the discontinuation of Libor have on the operation of the contract?
- For contracts with no fallback language in the event Libor is unavailable, or with fallback language that does not contemplate the expected permanent discontinuation of Libor, should actions be taken to mitigate risk, such as proactive renegotiations with counterparties to address the contractual uncertainty?
- What alternative reference rate (for example, SOFR) might replace Libor in existing contracts? Are there fundamental differences between Libor and the alternative reference rate — such as the extent of or absence of counterparty credit risk — that could impact the profitability or costs associated with the identified contracts? Does the alternative reference rate need to be adjusted (by the addition of a spread, for example) to maintain the anticipated economic terms of existing contracts?
- For derivative contracts referencing Libor that are utilized to hedge floating-rate investments or obligations, what effect will the discontinuation of Libor have on the effectiveness of the company's applicable hedging strategy?
- Does use of an alternative reference rate introduce new risks that need to be addressed? For example, for companies that have relied on Libor in pricing assets as a natural hedge against increases in costs of capital or funding, will the new reference rate behave similarly? If not, what actions should be taken to mitigate this new risk?

**New Contracts**

With respect to new contracts, the Staff suggested referencing an alternative rate (such as SOFR) or, where new contracts reference Libor, to include fallback language. The Staff's statement notes that the Alternative Reference Rates Committee has published recommended fallback language for specific contexts and that other industry groups are developing fallback language as well.

**Other Business Risks**

The Staff also advised that companies should identify, evaluate and mitigate other consequences of the discontinuation of Libor on their business, such as on strategy, products, processes and information systems.

Market participants facing a significant impact may want to establish a task force to assess the impact of financial, operational, legal, regulatory, technology and other risks.

**Division of Corporation Finance**

In the Staff's statement, the Division of Corporation Finance highlighted specific disclosure considerations for market participants. In particular, it noted that Libor transition might require disclosure in companies' risk factors, management's discussion and analysis, board risk oversight, and financial statements.

In accordance with the overarching theme of a proactive approach to Libor transition risks, the Division of Corporation Finance also noted that companies should keep investors informed about their progress toward risk identification and mitigation and the anticipated impact on the company, if material. In doing so, the Division of Corporation Finance encouraged all companies to consider the following guidance:

- The evaluation and mitigation of risks related to the expected discontinuation of Libor may span several reporting periods. Consider disclosing the status of company efforts to date and the significant matters yet to be addressed.

- When a company has identified a material exposure to Libor but does not yet know or cannot yet reasonably estimate the expected impact, consider disclosing that fact.
- Disclosures that allow investors to see this issue through the eyes of management are likely to be the most useful for investors. This may entail sharing information used by management and the board in assessing and monitoring how transitioning from Libor to an alternative reference rate may affect the company. This could include qualitative disclosures and, when material, quantitative disclosures, such as the notional value of contracts referencing Libor and extending past 2021.

**Office of the Chief Accountant**

The Office of the Chief Accountant noted that it is actively monitoring the activities of financial statement preparers and auditors, standard setters such as the Financial Accounting Standards Board and other regulators to address financial reporting issues that might arise relating to the transition from Libor to an alternative benchmark rate. Specifically, the Office of the Chief Accountant noted that these issues could span a number of areas, including:

- modifications of terms within debt instruments;
- hedging activities;
- inputs used in valuation models; and
- potential income tax consequences.

**Division of Investment Management**

The Division of Investment Management noted that it also is actively monitoring the impact of the expected discontinuation of Libor on investment companies and advisers. Investment companies and advisers should consider whether any of the effects of the discontinuation of Libor constitute risks that should be disclosed to investors, even for funds that do not hold investments linked to Libor.

The Division of Investment Management also encouraged affected funds to provide investors with tailored risk disclosure that specifically describes the impact of the transition on their holdings. For instruments extending past 2021 that reference Libor, advisers should consider the effect of the discontinuation of Libor when recommending those instruments to clients or monitoring them for clients.

**Division of Trading and Markets**

The Division of Trading and Markets stated that it is monitoring the impact of the discontinuation of Libor on broker-dealers, central counterparties and exchanges. These entities are encouraged to analyze how the discontinuation of Libor will affect them and whether their clients and markets should be informed of related risks.

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1 In the United States, a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York has identified the Secured Overnight Financing Rate (SOFR) as its preferred alternative rate for US dollar Libor. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions, representing a liquid market with daily volumes regularly in excess of $800 billion. Some market participants are also considering other US dollar reference rates for certain instruments.

**Skadden, Arps, Slate, Meagher & Flom LLP**

by Brian V. Breheny Adrian J. S. Deitz Rajeev P. Duggal Ryan J. Dzierniejko Gregory A. Fernicola Z. Julie Gao Michelle Gasaway David J. Goldschmidt Stephan Hutter Thomas J. Ivey Laura A. Kaufmann Belkhayat Jonathan Ko Riccardo A. Leofanti James A. McDonald Andrea L. Nicolás Gregg A. Noel Michael J. Schwartz Jonathan B. Stone Kenji Taneda Pranav L. Trivedi Yossi Vebman Dwight S. Yoo Michael J. Zeidel

July 25, 2019



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## For His Star-Studded Client Base, A Top Advisor Bets On Boring Muni Bonds.

Wells Fargo advisor Joshua Glass knows that entertainment's full of fleeting moments, but he's spent 18 years helping fortunes last—even if the fame doesn't.

"You can make a great deal of money in a very short period of time in entertainment, but just because your movie's hot now doesn't mean it'll be hot later," says 38-year-old Glass, managing director of investments at Wells Fargo Advisors' West L.A. outpost.

"To make your money last and grow, you've got to manage risk, taxes and preservation of capital," adds the Forbes Next-Gen Advisor, whose star-studded client deck includes film execs, pro athletes and Oscar winners.

The son of CPAs, Glass grew up in Los Angeles and found early exposure to the entertainment industry through family and friends. Originally considering a career as a Hollywood agent, he attended the University of Miami on a half-academic, half-athletic scholarship. Plans changed after sophomore year, however, when Glass quit football to spend time abroad and study finance.

After graduating in 2002, Glass took a job at the Beverly Hills branch of UBS. And from day one, Glass says, he was building up his book of clients, pitching for portfolios from prominent entertainers whose accounts were older than he was.

At the time, market sentiment was still battered from the recent dot-com bust, and clients were still shy on equities. Some had loaded up on tax-free floaters. These were municipal bonds that fared favorably for investors, but didn't add a penny to advisors' pockets.

"I wasn't making any money from it, but I was building trust," Glass says. And when the Great Recession roiled global markets, Glass' conservative strategy paid off; equities tanked, but bonds proved reliable.

"It's sad to say, but 2008 and 2009 really catapulted my business," says Glass. "At the time I was 27 or 28, I was managing over $100 million, and during that year when the equity markets lost 37% … my clients' worst losses were about 15%, and by August or September of '09, they were back at their all-time high."

Now married and with two young children, Glass manages about $305 million for more than 100 clients. He remains cautiously optimistic about the market in light of favorable macroeconomic conditions. Unemployment's still hovering around an all-time low, wages are increasing, and corporations are pouring billions into expansions.

"Do I see the economy closer to a downturn than an expansion? Of course," Glass concedes. "But there's plenty of room to grow."

In an age of information, during which a market uptrend has coincided with the rise of indexes, passive investing and robo-advising, Glass has adopted a mantra: "Keep it simple, stupid."

He reminds clients to remember fundamentals before being swayed by sensational news coverage. Wariness of bonds amid rising interest rates, for example, shouldn't make investors abandon bonds—the safe part of your portfolio, Glass adds.

"If you let the headlines tell you about it, you would've thought two years ago that bitcoin was going to make the U.S. dollar go out of business," Glass says. "Think about things logically. You have to filter out the noise."

**Forbes**

by Jonathan Ponciano

Jul 24, 2019

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## [Now Is the Time to Be Cautious in Muni Market: Neuberger Berman]

Jamie Iseliin, head of muni fixed income at Neuberger Berman, examines the municipal bond market with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

[Watch video.]

**Bloomberg MarketsTV Shows**

July 24th, 2019, 8:39 AM PDT

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## [Future Returns: Investing in Bonds for Impact.]

Community Capital Management's $2.1 billion fixed-income mutual fund has been investing for impact for 20 years—long before the term "impact investing" existed.

That's because the CRA Qualified Investment Fund was created as an investing vehicle for U.S. banks that are required by the Community Reinvestment Act of 1977 to support the communities where they operate.

But that focus, leading to investments in affordable rental housing, mortgages for low- and moderate-income borrowers, job creation, economic development, and affordable healthcare—among other areas—is also increasingly appealing to pension funds, endowments, foundations, and wealthy individuals and families who want to invest for impact in bonds as well as stocks.

Continue reading.

**Barron's**

By Abby Schultz

July 23, 2019

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## Has the Time Come for City-Run Public Banks?

**A coalition of activists in 10 California cities is pushing for public banks as a bill to support this voter-run option works its way through the state legislature.**

"We planted a seed," tweeted Public Bank L.A., the day the organization's ballot measure—which would have created the country's first city-led public banking institution—failed last year in Los Angeles. "This is just the beginning."

Turns out they were right. After voters in L.A. rejected the measure that would have allowed the city to divest funds from Wall Street banks and create their own public banking institution at the local level, Public Bank L.A. converged with Public Bank San Francisco and coalitions in eight other California cities and regions to form a united public banking front. And now, a state assembly bill, AB 857, that would make it legal for each of these cities to open local banks, cosponsored by San Francisco Assembly member David Chiu and Los Angeles Assembly member Miguel Santiago, has advanced through the California Assembly and into Senate committees.

Consider the way cities bank now: They collect thousands in tax revenue each year, then park that money in commercial banks that choose the projects and industries in which to invest the city's money in hopes of growing it. By opening local public banks, advocates say cities could decide where to invest those funds—and take out loans to finance other public projects for lower interest rates, from banks they control. The banks' priorities would be set by voters, and they'd be run by civil servants and financial experts.

"When you're backed by a city, you have a democratic constituency to hold the bank accountable," said Sushil Jacob, director of Economic Justice for Lawyers Committee For Civil Rights SF and one of the architects of the state and local legislation. "The city is identifying the needs for the community, and they're turning to the bank to finance those needs."

Continue reading.

CITYLAB

SARAH HOLDER

JUL 17, 2019

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## Municipal Bonds: Funding The Infrastructure Of Connections

*This is the third article in a series highlighting the most important aspect of municipal bonds: how* *the projects bonds finance help the community. It appropriately started with [Municipal Bonds: Investing In Our Communities](). This piece looks at how these days, infrastructure isn't just traditional big public works projects.*

**The Evolving Traditional Public Works Infrastructure**

Infrastructure conjures visions of big public works projects: roads, bridges, tunnels, mass transit, and water and sewer lines. There is a reason for that. Every day in the U.S., we climb into our cars, trucks, SUVs and minivans to drive more than 8.4 billion miles on public roads, over bridges and through tunnels. Nearly 23 million people get on a train, bus or subway to connect with work, shops and family. An average of 2.1 million passengers catch a flight at the airport. More than 27 billion gallons of water gets used daily, an amount that could fill all the National Football League's stadiums in America four times over.

States, cities, counties and towns all issue municipal bonds to fund traditional infrastructure. In the past that usually meant plan-and-build. Today, public works projects integrate ESG (environment-social-governance) principles into design and use, taking into consideration that environmental impacts of projects can last for decades.

[Continue reading.]()

**Forbes**

by Barnet Sherman

Jul 23, 2019

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## [Why Regional Economics Matter For Municipal Bonds.]()

**Summary**

- At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located.
- Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.
- Be cautious of areas that are growing too fast and causing financial strain for the municipality.

When you buy a municipal bond, you're making a loan to a state or local government, for which it promises to pay you back an amount at some date in the future – potentially as long as 30 years in the future. How do you know if the municipality will be able to make good on its promise by then?

At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located. Issuers in thriving economic regions with stable or growing populations generally have greater financial flexibility and can meet their debt payments more easily. Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.

[Continue reading.]()

**Seeking Alpha**

By Cooper J Howard

Jul. 16, 2019

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## Investors Want Municipal Bonds, but Issuance Is Rare.

**The 2017 tax overhaul and economic strength filling government coffers discourage offerings**

Municipal bonds are rallying, spurred by a broad surge in demand for global debt and a lingering decline in borrowing by state and local governments.

Investors have poured a net $47 billion into municipal bond funds during the first six months of 2019, a record for the first two quarters, according to Lipper data from Refinitiv. The bonds have provided positive returns, including price changes and interest, on the Bloomberg Barclays Municipal Bond Index every month since November 2018, the longest streak since the summer of 2016.

The surge in investor demand has met a decline in debt sales by states and municipalities. The drop was spurred by provisions of the 2017 tax overhaul that limited alternatives for refinancing, some state budget officers said. At the same time, recent economic strength has filled the coffers of state and local governments, reducing their need to borrow and decreasing the already-low risk of defaults.

“There are not many munis around,” said Guy Davidson, the chief investment officer of AllianceBernstein LP’s municipal business. And strong balance sheets mean “the downside is pretty limited at the moment.”

Municipal bonds, which fund civic projects ranging from tunnels to school renovations, are considered almost as safe as U.S. Treasurys because they are backed by tax revenue or payments from such essential services as water. They are largely owned by ordinary investors and have long served as a key component of retirees’ savings because their interest payments are typically tax-exempt.

The surge in demand further eases worries that the 2017 tax overhaul would hurt municipal bonds by reducing the appeal of those tax-free payments. Many also expected the tax cuts to boost growth and inflation. Investors tend to sell the bonds when they expect robust growth, while inflation erodes the purchasing power of the debt’s fixed payments.

The yield on the benchmark 10-year Treasury note, which rises as bond prices fall, hit 3.23% in November. But diminishing growth expectations and signs the Federal Reserve will shift to cutting rates have spurred a bond rally this year, driving the 10-year note yield below 2%. The yield on the Bloomberg Barclays Municipal Bond Index, an indication of how much it would cost governments to issue new debt, stood earlier this week at 1.95%, its lowest level since October 2016, and down from a recent peak of 3.08% in November.

“It’s really just amazing how aggressive this market is,” said Matt Fabian, a partner at Municipal Market Analytics. “They want tax-exempt income, and you can’t get that anywhere else except for the muni market.”

The drop in yields has been a boon to state and local governments. Florida's board of education last week sold a Aaa-rated 10-year bond at a yield of 1.64%.

Issuance in general has remained low. Municipal bond issuance slipped about 25% in 2018 and has stayed at modest levels in 2019, according to data from the Securities Industry and Financial Markets Association, an industry trade group.

Ben Watkins, director of Florida's division of bond finance, said a provision in the tax overhaul limited alternatives for refinancing muni bonds by issuing new debt and that "the only way we would take advantage of favorable markets and interest rates has been handcuffed by Congress."

That is likely to keep supply low, even as financial stability has improved at city and state governments. There were only 40 defaults in 2018, the lowest on record in Municipal Market Analytics data going back a decade. Mr. Fabian estimated that the total was probably a "multidecade low."

If municipal finances and demand for the debt remains strong, low supply could make yields fall even further, according to some analysts. Still, Mr. Davidson said the municipal bond market includes numerous everyday investors whose sentiment can "turn on a dime."

"Demand is not always a given," said Mr. Davidson. "Mom and Pop are easy to scare."

**The Wall Street Journal**

By Britton O'Daly

July 18, 2019

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## Nuveen's Warning to Wall Street: Cut Off Our Muni Rival or Else.

- **December calls put pressure on banks, court transcripts show**
- **'The Street just has to choose,' Nuveen's Miller tells Goldman**

Nuveen LLC was giving Deutsche Bank AG an ultimatum.

John Miller, who oversees $160 billion of investments in state and local government bonds for the mutual-fund company, had watched in anger as a Dallas upstart muscled in on his lucrative corner of the municipal-securities market. The latest encroachment: the rival, Preston Hollow Capital LLC, landed $200 million of debt offered by a junk-rated university located in Nuveen's hometown of Chicago.

Now, Deutsche Bank was being told that Nuveen would pull business from the bank for providing financing for Preston Hollow, according to the transcript of a December telephone call filed in a Delaware court.

Miller's subordinate said Nuveen had already penalized Wells Fargo & Co. and Bank of America Corp. And other major banks were being put on notice for working with Preston Hollow, a firm Miller said was hurting the market by charging "predatory" interest rates on bonds it planned to resell to others.

"I have been working with John for 15 years and I have never seen him as serious about anything. I mean nothing gets him more upset than these Preston Hollow deals," said the employee, who wasn't identified by name in the transcript of the phone call with Deutsche Bank. "We are going to every single bank and broker-dealer today to examine what is the extent of their business, and the policy going forward is that if you are actively doing business with them, Nuveen will not be doing business with you."

The transcripts provide an inside look at a clash in the high-yield municipal market, a $500 billion corner where a flood of cash and relatively scant issuance frequently leaves firms fighting over new debt offerings. Few wield as much influence in that business as Nuveen, a unit of New York's TIAA.

In February, Preston Hollow sued Nuveen in Delaware Chancery Court, alleging the company used its market power to organize an industry-wide boycott against it. The telephone transcripts are at the heart of the case, with Preston Hollow arguing that they show Nuveen engaged in a "campaign of intimidation" to blackball it from the industry.

**Free to Choose**

A spokesman for Nuveen, Stewart Lewack, said Preston Hollow's claims have no merit and the company intends to "vigorously defend itself" when the case goes to trial later this month. He said the transcripts provide a distorted view of Nuveen's interactions with brokerage firms. He declined to comment on whether Nuveen pulled its business from banks over their ties to Preston Hollow. Miller didn't respond to an email seeking comment.

A spokesman for Deutsche Bank, Troy Gravitt, declined to comment. Jonathan Morgan, a spokesman for Preston Hollow, said Deutsche Bank didn't cut its financing to the company.

In court filings, Nuveen's lawyers argued that the firm can choose with whom to do business and select partners based on whether they work with competitors. They said Preston Hollow hasn't identified any lost business because of Nuveen's alleged conduct or demonstrated a reciprocal, collusive relationship among Nuveen and Wall Street banks, the filings said. This year, Preston Hollow has purchased at least $136 million bonds in exclusive deals underwritten by Loop Capital Markets LLC, Stifel Financial Corp. and Piper Jaffray Cos., according to offering documents.

The lawsuit comes just as competition for the riskiest municipal bonds has intensified as rock bottom interest rates leave investors hunting for larger returns. High-yield municipal securities funds have picked up $10.5 billion of new cash in the first half of 2019, according to Morningstar Inc. data. Miller's $20 billion fund at Nuveen received 20% of it.

**Striking Core Business**

Spending the money isn't always easy. It's rare to see billion-dollar deals for large speculative projects, such as Virgin Trains USA's passenger railroad in southern Florida or the American Dream shopping mall in New Jersey's Meadowlands. Most low-rated municipal-bond deals come in chunks of $50 million or less from smaller borrowers like hospitals, charter schools or senior-living centers.

That's why even a firm like Preston Hollow could create a challenge for far bigger rivals. Rather than buy bonds in public offerings, the 5-year-old company negotiates to buy the entire deal in private. That saves borrowers costs for marketing and credit ratings.

In a phone conversation with Deutsche Bank, which extended financing to Preston Hollow through a so-called tender option bond program, Miller said the Dallas rival had initially only been doing a "handful" of $20 million to $50 million deals.

But it had started buying ones of $100 million or more, including from issuers whose securities Nuveen owned. Miller said that Preston Hollow was engaging in predatory practices by charging overly high interest rates for debt that it didn't intend to hold on to, creating financial risk for the borrowers and other bondholders.

"What's happened in the last two months really strikes more at the core of our business," Miller said, according to a transcript of his call filed in court. He later said that their "ability for them to move up the scale into deals that are really hurting us and really hurting our industry. That ability does come from your TOB financing."

**'Devastating News'**

One of Preston Hollow's deals was for Roosevelt University, a private school near Chicago's Grant Park that's seen enrollment shrink by 30% since 2014. In September 2018, Wells Fargo sold the entire issue, which was done through the Illinois Finance Authority, directly to Preston Hollow, even though Nuveen already owned some of its debt.

In the call with Deutsche Bank, the Miller subordinate criticized Preston Hollow for securing "exorbitant" yields and weakening protections for bondholders. "It's predatory," the employee said.

Allegations that Preston Hollow charged excessive rates and structured rushed deals are false and defamatory, the firm said in court filings. Roosevelt University's 2018 bonds had stronger financial protections for investors than prior bond issues by the university and Preston Hollow engaged in extensive discussions on the covenants with Roosevelt and its financial adviser, bond counsel and underwriter, said Morgan, the Preston Hollow spokesman.

Nuveen suspended its trading with Wells Fargo, the employee said, speculating that the move helped contribute to the ouster of the bank's public finance chief, Stratford Shields, after about a year on the job. Deutsche Bank needed to cut off the liquidity and unwind financing to Preston Hollow, the employee explained, or Miller would reduce Nuveen's business with the bank "to zero."

"It's devastating news," one unidentified Deutsche Bank employee said.

Shields said through a spokesman that the comments cast doubt on the company's previously stated reasons for his ouster. A spokesperson for Wells Fargo declined to comment.

Deutsche Bank ignored the suggestion, according to Morgan, the Preston Hollow spokesman. But he said the Dallas lender is concerned about the effect the "extreme economic pressure" applied by Nuveen could have in the future. "We are thankful for Deutsche Bank's willingness to stand up to Nuveen's pressure and hope it will continue to do so in the future," Morgan said.

**Can't Do Both**

The transcripts show that Deutsche Bank wasn't the only one to face such hardball tactics. Miller told Deutsche Bank he had commitments from Bank of America, Goldman Sachs Group Inc. and JPMorgan Chase & Co. and was soon meeting with Citigroup Inc. about not working with Preston Hollow. An agreement with Morgan Stanley, he said, was pending and similar deals were in the works with "a whole bunch" of smaller, region-based underwriters.

Morgan Stanley didn't stop doing business with Preston Hollow following conversations with Nuveen, said Mark Lake, a spokesman. Spokespeople at Bank of America, Citigroup, Goldman Sachs and JPMorgan declined to comment.

“The Street just has to choose,” Miller said in a call with Goldman Sachs, according to a court transcript. “They have to choose who and what type of business they’re going to do because they’re not going to do both. At least not with Nuveen.”

“I’ve got 90% of the major top bracket muni broker dealer firms and banks to say absolutely never again, and I’m working on 100%,” Miller told Deutsche Bank. “I feel my chances are very good at getting there.”

**Bloomberg Markets**

By Martin Z Braun

July 18, 2019, 3:00 AM PDT

*— With assistance by Jef Feeley*

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## [S&P U.S. Public Finance Midyear Outlook: Will The Sizzle Fizzle?]

The current U.S. economic recovery is now the longest on record. It’s also the slowest, which has been the bigger story for U.S. public finance credit quality (see chart 1). Last year’s surge in growth–spurred largely by federal stimulus including tax reform–has contributed to strong revenue growth for many state and local governments and enterprise sectors this year.

[Continue Reading]

Jul. 18, 2019

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## [How Bad Is the State and Local Pension Crisis Really?]

State and local government pension plans hold nearly $4 trillion in assets and provide retirement income to over 10 million Americans. For most of these plans, the value of liabilities for future benefit payments exceed the value of plan assets. According to many journalists, academics, and policymakers, this failure to fully prefund state and local pensions constitutes a crisis. In a paper presented at the 2019 Municipal Finance Conference at Brookings, Jamie Lenney of the Bank of England, Byron Lutz of the Federal Reserve Board, and Louise Sheiner of Brookings provide an alternative view. Instead of focusing on a full prefunding benchmark, they focus on the sustainability of pension plans—whether plans will run out of assets and need to borrow money or be bailed out to meet benefit obligations.

Focusing on sustainability, Lenney, Lutz, and Sheiner argue, is appropriate for assessing the effect of pensions on state and local finances for several reasons. First, it provides a clear answer to the pressing question of whether public pensions are likely to spark a fiscal crisis. Second, it is consistent with history; in aggregate, these plans have always operated far short of full prefunding. Finally, getting to full prefunding is not necessarily welfare enhancing.

The authors use information in pension actuarial reports and state government comprehensive annual financial reports to project the benefit payments to current and future retirees for a sample of 40 pension systems. They find that benefit payments, as a share of the U.S. economy, are currently at their peak and will remain there for roughly the next two decades. Thereafter, reforms instituted by many plans to lower benefits will gradually cause a significant decline in the size of pension payments relative to GDP. This suggests that the cashflow pressure plans are currently experiencing will eventually recede.

Continue reading.

**The Brookings Institute**

by Finn Schuele and Louise Sheiner

Monday, July 15, 2019

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## What Crisis? The Case for Not Panicking Over Pension Debt.

**New research released this week shows that even pension plans with big unfunded liabilities are likely to survive in the long term.**

Over the past decade, public retirement costs have spiked while governments' unfunded liabilities –now totaling more than $1.2 trillion — have continued to grow.

But according to research that debuted this week, lawmakers shouldn't worry too much about accumulating pension debt. "There's an assumption that fully funding pensions is the right thing to do," said the Brookings Institution's Louise Sheiner at the paper's presentation. "Most of the work in this area has been about calculating how unfunded these plans are [and] that's led to a lot of concern that these plans are in a huge crisis."

Sheiner, along with co-authors Byron F. Lutz of the Federal Reserve Board and Jamie Lenney of the Bank of England, say that's not the case. They argue that pension debt is stable as long as its size relative to the economy doesn't increase. "When you approach the pension situation from a public finance [and sustainability] angle," Sheiner said, "there's less of a crisis than is typically portrayed."

The paper, which was presented at the Brookings Institution's annual municipal finance conference in Washington, D.C., finds that pension benefit payments as a share of GDP are currently at their peak level and will remain there for the next two decades. That's because the 2008 market crash came at a time when pension plans were starting to see baby boomers retire, meaning they dropped in value just when payments to retirees were starting to increase.

By 2040, however, the reforms instituted by many plans following the financial crisis will gradually cause benefit cash flows to decline significantly. Since those changes were to current employees' plans, governments won't see the full effect of those savings until those workers retire.

All of this means that, according to the research, the worst of it is over for most pension plans. For the next 40 or so years, the ratio of pension debt as a share of the economy is expected to remain the same, as long as the plans achieve moderate investment returns and governments continue to make consistent payments equal to or slightly higher than they are now.

Those, however, are two big conditions. Consistent payment schedules that last more than a few election cycles can be difficult for politicians.

Take Illinois. In 1994, it set a 50-year payment schedule that would fund the plan at 90 percent. For the first decade of the schedule, the payments were low. They've since started ramping up. As costs have increased, lawmakers have consistently found ways to avoid making them, meaning that the expected contributions are getting even bigger and bigger. Illinois now has one of the highest state contribution rates as a share of payroll, around 50 percent.

Sheiner said there are some plans, such as Puerto Rico's, that are essentially out of money and probably in need of a bailout. But most plans could achieve their definition of stability by maintaining or slightly increasing their current contribution rate as a percentage of payroll. (The U.S. average is 17.4 of payroll.)

The main concern, she adds, is with all this pressure to be fully funded, what are states giving up? And is that even necessary? "You do hear a lot of stories about people wanting to do things that are incredibly valuable, like getting lead out of water and investing more in education. These have huge rates of return that affect people's health, inequality, basically everything that's really important," she said. "And they can't do it because they have to fully fund their pension."

GOVERNING.COM

BY LIZ FARMER | JULY 19, 2019 AT 4:00 AM

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## High And Tight: Investment Options For A Rich Muni Market

**Summary**

- Muni CEFs have had a strong run-up in the last few months, supported by falling nominal rates, tighter credit spreads, and strong muni demand.
- Historically-high leverage costs, low long-term yields, and bond calls continue to pressure muni CEF earnings leading to continued distribution cuts.
- Investors who would like to take some chips off the table but maintain muni exposure can rotate into an ETF or CEFs with more robust coverage and UNII profiles.

Continue reading.

Seeking Alpha

ADS Analytics

Jul. 19, 2019

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## Muni Bond Defaults More Common than Rating Agency Tallies Suggest.

Defaults on local government bonds have been more frequent than credit rating agencies have reported, according to a paper by Lang (Kate) Yang of The George Washington University and Yulianti Abbas of the University of Indonesia prepared for the 2019 Municipal Finance Conference at Brookings. But because these defaults usually occur on bonds issued to fund specific projects, as opposed to general obligation bonds, the defaults do not tend to raise the borrowing costs of the defaulting local governments.

Using data on defaults reported by local governments from 2009 to 2015, including bonds that were not rated, the authors identify 2,563 defaults of all kinds – including technical defaults (for example, failure to file an audited financial report) and pre-monetary defaults (for example, unexpectedly drawing on reserve funds to maintain debt-service-ratios required for a loan) as well as failure to make interest payments. Excluding the highly publicized bankruptcies of Detroit, Jefferson County, and Puerto Rico, they count 2,049 defaults with par value of $7.2 billion – still a very small slice of all municipal bonds outstanding.

General Obligation (GO) bonds, the most common type of municipal bonds, are backed by the full faith and credit of the issuing municipality, and issuing governments can tap into all available revenue sources to meet their obligations to bondholders. Revenue bonds, in contrast, have a claim on a specified stream of revenues – tolls on a highway or ticket revenues at a stadium, for instance. Some revenue bonds are issued by a municipality on behalf of a private entity.

Most of these defaults that Yang and Abbas track are among bonds that haven't been rated by a credit rating agency, uninsured bonds, or bonds that are not GO bonds. They do not find an increasing number of defaults; indeed, excluding the three big municipal bankruptcies, they find a decline in defaults since 2012.

Comparing interest rates on government debt across counties and municipalities that experienced some form of default on non-GO bonds to those that did not, the authors find no significant effect of non-GO defaults on overall borrowing costs of the defaulting entity. These effects persist even when controlling for bond characteristics, as well as when looking only at municipalities that frequently default, are frequent borrowers, experience high unemployment rates, and have fewer legal hurdles to declaring municipal bankruptcy. The authors conclude that local governments should be comfortable issuing non-GO bonds or helping private entities access municipal markets despite the fact that such securities have a higher default rate than GO bonds, in part because there is no spillover from a non-GO default to municipal borrowing costs. They also conclude that local governments should not bail out failing non-GO bonds with general tax revenues because the spillover effects are so minimal.

Read the paper here»

**The Brookings Institute**

Michael Ng and David Wessel

Monday, July 15, 2019

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## How Puerto Rico's Default Lowered States' Borrowing Costs.

The legal framework for state (as opposed to municipal) default is uncertain; no state has defaulted on its debt since Arkansas did so in 1933. In a paper, "Legal Uncertainty and Municipal Bond Yields: Market Spillovers from Puerto Rico," prepared for the 2019 Municipal Finance Conference at Brookings, Chuck Boyer of the University of Chicago Booth School of Business argues that markets view Puerto Rico's recent default as setting precedents for the legal framework should any U.S. state default. (In the U.S., municipal and county governments can declare bankruptcy; states cannot.) Using an event study methodology, Boyer finds that state bond prices had statistically significant reactions to legislation and legal decisions regarding Puerto Rico. By reducing the legal uncertainty surrounding a possible state default, the Puerto Rico decisions reduced the cost of state borrowing, he finds.

Boyer studies highlights four events in the Puerto Rico saga. First, in 2014, Puerto Rico enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (Recovery Act), which allows state-owned corporations to restructure their debts. Two years later, in 2016, they passed the Debt Moratorium and Financial Recovery Act (Debt Act) that allowed Puerto Rico to stop making debt payments. Third, in the same year, U.S. Congress passed PROMESA, allowing Puerto Rico to restructure debts with more favorable terms toward creditors than Chapter 9, the means through which local governments declare bankruptcy. Finally, in 2018, a judge ruled that Puerto Rico's special revenue bond payments are optional during bankruptcy proceedings. These events "decrease market uncertainty as they have begun to create some precedent for a framework for state government default," Boyer writes.

Using data on individual bonds issued by state governments, the author estimates changes in the average bond spreads between state-issued bonds and U.S. Treasury debt of similar maturities, 15 days and 30 days following the announcement of each event. Bond spreads are a measure of the market's judgment on the riskiness of a security. Boyer reasons that "if an event leads to an increase in the expected recovery rate, one would expect to see a decrease in spread as the expected payout to debtholders is now higher." Controlling for factors related to the characteristics of each bond, Boyer finds that the three Acts lowered the bond spread between 0.03 and 0.08 percentage points. In addition, consistent with his hypothesis, the ruling that Puerto Rico does not need to pay its revenue bonds in bankruptcy, which decreases recovery rate, increased bond spreads by 0.08 percentage points. These results suggest that state bond prices reacted to the legal events in Puerto Rico.

The author also examines whether states in worse fiscal health are worse affected by the legal decisions in Puerto Rico as they are more likely to default. He finds mixed results for this hypothesis. Although bonds from states with credit ratings below the highest investment grade reacted negatively to the Recovery Act, increasing spreads between 0.95 and 1.25 percentage points, neither the Debt Act nor PROMESA had a sizeable or significant effect. He concludes that there is no broad evidence that weaker state government are particularly affected, but suggests that a model of legal uncertainty may better illuminate reactions.

In short, Boyer finds that the legal decisions on Puerto Rico decrease bond spreads between state bonds and Treasury debt. This suggests that one channel affecting municipal debt is legal uncertainty. The author concedes that more research needs to be done on the legal uncertainty channel, but says that his results imply that establishing a legal framework for state government default could lead to lower borrowing costs for state governments.

**The Brookings Institute**

Jeffrey Cheng and David Wessel

Monday, July 15, 2019

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## What Is Driving Up the Cost of Highway Construction?

The cost of building one mile of interstate highway in the 1980s was three times what it cost in the 1960s, adjusted for inflation, Leah Brooks of The George Washington University and Zachary Liscow of Yale University find in a paper prepared for the 2019 Municipal Finance Conference at Brookings.

Brooks and Liscow marshal historical data from the Federal Highway Administration to try to explain these spending patterns. They rule out a few popular explanations: highway planners did not leave the most geographically challenging routes to do last. Changing costs for construction material or labor don't explain the increase in spending over time. Neither do the costs of acquiring rights of way or the costs of planning. And there were no large changing of federal interstate highway construction standards over time.

Instead, the authors find evidence that suggests two other explanations. One is what the authors call "the rise of 'citizen voice'" beginning in the 1970s, which brought costly environmental review delays. They suggest that "projects associated with wigglier highways may have encountered resistance that both led to less direct routes and also more expensive construction." They find that a 0.01 mile per year increase in the wiggliness of a highway is associated with a $9.71 million increase in costs.

The second possible explanation is an increase in the quantity (not the price) of labor. The authors use unionization rates and the average share voting Democrat in presidential campaigns (an indication of a state's political leanings) over time as proxies for the importance of labor in each state.

Brooks and Liscow also find substantial variation in spending among states: New Jersey, for instance, spent $35 million more per mile than Delaware. They find these differences are not explainable by observable differences in state policy or in the geography of the places where the roads are built. "This puzzling but striking unexplained residual," they write, "resembles the large explained residual in health care spending across states and merits further investigation."

Read the paper here»

**The Brookings Institution**

Manny Prunty and David Wessel

Monday, July 15, 2019

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## GASB Proposes Omnibus Statement Addressing Wide Range of Practice Issues.

**Norwalk, CT, July 9, 2019** — The Governmental Accounting Standards Board (GASB) has proposed guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements.

The issues covered by the Exposure Draft, *Omnibus 20xx*, include:

- The effective date of Statement No. 87, *Leases*, to address concerns regarding interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit pension plan or other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets

accumulated for pensions and OPEB
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to pension and OPEB arrangements, and
- Measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders to review the proposal and provide comments by October 4, 2019.

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## Fitch Ratings: FY18 Median Ratios Show Widening Credit Gap; Strong Fundamentals for U.S. Higher Ed

Fitch Ratings-Chicago-12 July 2019: Fiscal 2018 ratios show a more bifurcated sector and widening credit gap among U.S. universities and colleges, with higher-rated institutions getting stronger and lower-rated entities facing more operating, leverage and demand pressures, according to a new report from Fitch Ratings. Trends highlighted in the median report show relatively flat student-generated revenues and public funding continue to pressure margins, while solid fundamentals helped to support largely stable median liquidity and leverage levels in fiscal 2018.

Student-driven revenue remains paramount across the sector, and tuition pressures at the lower end of the rating spectrum continue to rise; with a range from marginal growth below 2% for 'A' category public institutions and 'BBB' category private institutions, and net tuition declines and volatility at lower ratings. Tuition discounting continues a steady rise across rating categories, and poses a real credit concern for those credits with weaker demand profiles and thinner balance sheet resources.

Still, a strong year for endowment performance and ongoing expense control helped support liquidity-related metrics in fiscal 2018, which continue to be a distinguishing factor across rating levels. Median ratios of available funds (AF) to debt and AF to expenses increased for most Fitch-rated institutions in fiscal 2018, and were at worst flat in the lower rated categories.

Two new metrics related to the release of the new 'U.S. Public Finance College and University Rating Criteria' (June 2019) aid this analysis: adjusted cash flow margin and available funds to adjusted debt.

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## Fitch Ratings Updates Criteria for U.S. Military Housing Rating Criteria.

**Link to Fitch Ratings' Report(s):** U.S. Military Housing Rating Criteria

**Fitch Ratings-New York-12 July 2019:** Fitch Ratings has published an updated criteria report titled 'U.S. Military Housing Rating Criteria.' The report replaces the existing criteria of the same title published on July 25, 2018.

The changes to the criteria mainly relate to further clarification of the data sources section and the addition of a disclosure section commenting on the disclosure of assumptions used in developing revenue projections at issuance and any significant changes to those assumptions in surveillance reviews. In addition, methodology for assessing investment quality and counterparty exposure was further clarified in the report.

No changes to the ratings of existing transactions are expected as a result of the application of the updated rating criteria.

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## S&P When The Cycle Turns: U.S. Airport Balance Sheets - And Exposures - Increase With Traffic

Aside from America's roadway network, U.S. airports have been at the forefront of a national conversation related to aging infrastructure, congestion, and delays that inhibit growth and global competitiveness. These are on display every day to 2.7 million travelers on 44,000 flights across the U.S. aviation system.

[Continue Reading]

Jul. 9, 2019

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## [For All But the Lowest-Rated State and Local Governments, Buying Bond Insurance is a Bad Deal.]

State and local governments paid over $17 billion in insurance premiums on their bonds between 1995 and 2008. Insuring a bond should add a layer of protection against default for investors in the bond and reduce interest costs for borrowing municipalities. But after many bond insurers collapsed during the financial crisis, the benefits of bond insurance to state and local taxpayers became much less clear.

In a paper presented at the 2019 Municipal Finance Conference at Brookings, Kimberly Cornaggia and Giang Nguyen of Pennsylvania State University and John Hund of the University of Georgia find that today, only a handful of state and local governments benefit from insuring their bonds. The authors studied a sample of over 700,000 municipal bonds issued over the last 30 years. They find that, before the financial crisis, bond insurers tended to have high credit ratings, so buying insurance on muni bonds was a good way for state and local governments of all credit ratings to reduce interest rate costs on their debt. In that period, local governments saved about 0.1 percentage point in borrowing costs by paying to insure the bonds.

When bond insurers' credit ratings were downgraded during the crisis, however, investors began to consider insurance to be less valuable. Post-crisis, insuring led to lower borrowing costs only for state and local governments with the lowest credit ratings. The authors show that insurance is effective at reducing interest costs only when the insurer has a higher credit rating than the borrowing government; after the financial crisis, very few insurers continued to have credit ratings as high or higher than the municipalities they insured.

Still, many municipalities continue to pay insurance premiums today. There is no clear explanation why well-rated governments do this, and the authors say that doing so subsidizes lower-rated municipalities that benefit from the insurance. The authors say their findings indicate that moving away from bond insurance could result in significant savings for state and local taxpayers.

In addition to lowering borrowing costs for municipalities, bond insurance should make purchasing and trading bonds cheaper for investors. Cornaggia and coauthors show, however, that transaction costs tend to be the same or even higher for insured municipal bonds relative to their uninsured counterparts. This finding points to another avenue by which bond insurance doesn't deliver benefits.

[Read the paper here»]

**The Brookings Institute**

Sage Belz and David Wessel

Monday, July 15, 2019

## The SOFR Primer, by SIFMA Insights.

**Transitioning away from LIBOR**

The publication of LIBOR is not guaranteed beyond 2021. To ensure financial stability, a significant, coordinated effort is underway to transition to alternative interest rate benchmarks. With an estimated $200 trillion of financial contracts referencing USD LIBOR, much work lies ahead in order to implement a successful reference rate change and time is of the essence.

In this primer, published as we gather for a LIBOR Transition Briefing with policymakers at the center of the transition, SIFMA Insights provides an overview of the LIBOR transition – as well as an actionable checklist – with a focus on the proposed U.S. alternative reference rate, Secured Overnight Financing Rate (SOFR).

Get the Primer.

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## Pressure Builds on Congress to Raise Debt Limit, Which Would Reopen SLGS Window.

The Treasury window for trading State and Local Government Securities will not reopen to the municipal bond market, though pressure is building on Congress to raise the federal debt limit before its August recess.

The SLGS window has been closed since March 1 when Treasury began taking extraordinary measures to avoid breaching the debt limit, and an increase would reopen it.

The deadline for avoiding a potential default on the nation's debt obligations has not been expected to be until early October, but the Bipartisan Policy Center said Monday the risk has moved up to early September.

The Washington-based think tank said the most likely deadline remains early October but it cannot rule out a September date because federal revenue growth has run lower than earlier expectations.

That leaves the House with only three weeks to act prior to its plan for a seven-week legislative break that would begin July 26, while the Senate is planning to end its legislative session a week later.

Both chambers plan to return for legislative work on Sept. 9, but that might be too late to avoid the disruption to financial markets and other cascading effects that a default would cause.

Senate Appropriations Chairman Richard C. Shelby, R-Ala., acknowledged the new urgency to act on Monday.

“That could change the dynamic,” Shelby told The Washington Post. “We cannot default. That would send chaos through the financial markets.”

Shelby told The Wall Street Journal, “It's time now for a serious conversation.”

Senate Majority Leader Mitch McConnell, R-Ky., told reporters Tuesday he is “in close communication” with Treasury Secretary Steven Mnuchin on the deadline for acting. “I don’t think there is any question that we won’t default,” McConnell said.

SLGS are typically used by state and local governments and other entities that issue tax-exempt municipal bonds because of yield restrictions and arbitrage rebate requirements under the Internal Revenue Code.

The role of SLGS has been significantly diminished by the termination of advance refundings on Jan. 1, 2018, under the Tax Cuts and Jobs Act, with the amount of SLGS outstanding declining more than 49%.

There were 13,147 SLGS bonds and notes with a combined value of $47.9 billion at the end of June compared to 21,015 SLGS bonds and notes valued at $94.4 billion at the end of 2017, according to the Treasury.

There still are three uses for SLGS.

First, they are sometimes used for escrows in current refundings.

They are also sometimes used for equity defeasance escrows which are yield restricted.

The third use is for longstanding advance refunding escrows.

Michael Cullers, a public finance tax lawyer and partner at Squire Patton Boggs in Cleveland, said that based on what he’s seen the closing of the SLGS window “hasn’t created a lot of difficulties.”

Because advance refunding of tax-exempt bonds is no longer allowed, a lot of the pressure to use SLGS has been alleviated, Cullers said.

“I would say it’s now definitely more a bump in the road,” said Cullers. “Even if you use them to refund taxable bonds, and you end up with positive arbitrage, you can make a yield reduction payment. It’s really made it a lot less difficult.”

Cullers noted that Treasury regulations on yield reduction payments were modified a few years ago to allow the use of yield reduction payments to comply with yield restriction where a defeasance escrow funded with proceeds of an advance refunding bond issue have a materially higher yield than the yield of the advance refunding issue, and the issuer was unable to subscribe for SLGS on the date that it entered into the agreement to purchase the escrow investments because the Bureau of Fiscal Service had suspended the sale of SLGS.

An agreement on raising the debt limit is expected to be part of a larger deal that would raise defense and domestic spending limits for the 2020 fiscal year that begins Oct. 1.

Without an agreement, budget caps would force onerous spending reductions.

CBO reported Monday the federal budget deficit was $746 billion for the first nine months of the 2019 fiscal year that began Oct. 1.

The deficit through June 30 was $139 billion more than the deficit recorded during the same period the previous year, CBO said. Outlays were $208 billion higher than during the first nine months of fiscal 2018 while revenues were only $69 billion higher.

Over the first nine months of the fiscal year total receipts have increased by 3%. The $69 billion increase in receipts included an additional $37 billion in payroll withholding for workers and a $20 billion decline in income tax refunds.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 07/09/19 02:52 PM EDT

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## [Bridging Public Pension Funds and Infrastructure Investing: Nossaman]

Nossaman attorneys Yuliya Oryol, Peter Mixon and Allan Ickowitz provided feedback and comments on drafts of "Bridging Public Pension Funds and Infrastructure Investing," a white paper co-authored by Clive Lipshitz and Ingo Walter (NYU Stern School of Business).

The paper is a thoughtful evaluation of the sustainability of the largest public pension systems in the United States and the role of infrastructure investing in their portfolios. Lipshitz and Walter argue that infrastructure should become more central to pension portfolios despite the existing challenges for infrastructure development in the United States. In order for public pension plans to benefit from the gains of infrastructure investing, they discuss the importance of improved efficiencies and increased supply of deals – likely through public-private partnerships and other greenfield or repurposed brownfield investing opportunities.

[Click here to download and read the paper]

**Nossaman LLP**

By Yuliya Oryol on July 11, 2019

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## [The Tool That Local Economic Developers Should Rely On.]

**A cost-benefit model is the best route to creating fiscally prudent incentive packages.**

There's little doubt that the use of taxpayer-funded incentives will remain the subject of intense disagreement among public officials, researchers and the public. Regardless of the larger debate, however, local economic developers are often expected to offer incentives to attract and retain businesses. How can you provide them in a fiscally responsible way?

The local government's elected body sets a vision for the type of economic activity the community desires. Policies then need to be written stating when and what types of incentives can be used. At this point, economic developers need a good fiscal tool to ensure that incentives are being offered wisely.

There are three types of fiscal tools that can be used to look at economic projects: an economic-impact model, a fiscal-impact model and a cost-benefit model.

An economic-impact model, such as the ones produced by the federal Bureau of Economic Analysis as well as private companies, estimates the impact on taxes, jobs, wages and economic activity should a business move into a community. However, it often overlooks additional costs associated with this business, such as project-specific capital expenditures or increased demand for services from local governments, resulting in overstated benefits.

Conversely, a fiscal-impact model focuses on costs associated with business activity. However, it doesn't look at indirect revenues very well and tends to overstate costs. When reviewing a fiscal-impact study for La Plata County, Colo., for example, we found that the report did not credit any sales-tax revenue attributable to increased residential housing, even though half of all retail sales were from residents. It also did not account for property tax revenue from machinery and equipment for manufacturers and wholesalers, which comprise more than half of all property tax from these businesses.

A cost-benefit model balances the approaches of economic- and fiscal-impact modeling. It evaluates the change in economic activity, government revenues and costs for a new project, as well as the cost of any incentives offered, and it measures these impacts over several years.

One key element in a cost-benefit model is identifying both the fixed costs and variable costs to the governing body's budget. As a business generates new jobs and housing, there will be an increase in some public costs, such as police calls, as well as revenues, such as activity fees for a community recreation center. Other parts of the budget, such as the costs of city administration, may not change when a new business moves in. In Lawrence, Kan., we identified these fixed and variable portions of the city budget internally. Other communities, such as Lee's Summit, Mo., hired a consultant to create this analysis.

A good cost-benefit model allows you to more accurately assess the risk associated with the project, giving you answers to questions such as what happens if a project creates fewer jobs than forecast. In Lawrence, this proved quite helpful in responding to questions from residents about whether proposed projects would perform according to the company's projections.

For a cost-benefit model to be effective, policy should require a "coverage ratio" similar to what banks use for issuing loans. For instance, the policy we had in Lawrence required that a project generate $1.25 in new revenue for every $1 in new incentives and costs.

Finally, the cost-benefit model should be managed in-house. This allows staff to be the experts and respond to questions from elected officials, city management or the public, and to provide more detail as needed.

When we built our cost-benefit model in Lawrence, two of biggest challenges we found were learning to negotiate and balancing the model's flexibility with ease of use.

City leadership can be nervous about negotiating with businesses. However, most businesses are used to negotiating and are willing to yield a little in their requests, if you can explain why you can't meet a request and what you can do as an alternative. Using negotiations, Lawrence was able to craft an incentive package that met the city's fiscal requirements and still allowed for a critical expansion for one of its largest employers.

Cost-benefit models also have trade-offs between ease of use and flexibility. Typically, the more flexibility you want, the more complicated the model is to use. Flexibility became a challenge in Lawrence, and after almost a decade with the same cost-benefit model, a new one needed to be found. Finding a balance between flexibility and ease of use and creating quality training documents are important for the longevity of the model.

Every economic-development project carries risk. However, with a solid vision, good policy and a quality cost-benefit model, local economic-development professionals can provide fiscally prudent incentive packages that increase the benefit to the community overall.

GOVERNING.COM

By Roger Zalneraitis

JULY 8, 2019 AT 4:00 AM

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## [Municipal Bonds: Investing In Our Communities]

As municipal bond investors, we sometimes get so caught up in where interest rates are headed or if the yield curve is flattening or rising, we lose track of the most important aspect of municipals bonds: how the projects they finance help the community.

At their best, bonds fund projects deliver essential public services to the community. The benefits can be both immediate and last long into the future. Schools get built, highways paved, water and sewer systems expanded, bridges and tunnels maintained, hospitals upgraded,and a host of other projects created or improved. Few other investment vehicles so positively affect our lives in such tangible ways. It's the reason municipal bonds are generally a credit-stable asset class.

While that's an important point for investors to keep in mind, it sometimes leaves the impression that municipal bonds are, well, a little dull.

Continue reading.

**Forbes**

by Barnet Sherman

July 9, 2019

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## [The Importance of Monitoring Municipal Bonds.]

The municipal bond market may not be as fast-moving as the equity or futures markets, but that doesn't mean that investors should stop monitoring bonds after they are purchased. In addition to the handful of high-profile defaults, investors must be mindful of smaller changes in credit and liquidity risk that can impact how they build and maintain their overall portfolio.

Let's take a look at why it's important to monitor muni bonds and what metrics to watch.

**Why Monitor Muni Bonds?**

Most investors do their due diligence before buying municipal bonds by assessing the financial health of the issuer and the bond's specific characteristics. However, many investors fail to monitor bonds once they become part of their portfolio, despite potential changes in risk over time. These changes can have a significant impact on their overall portfolio risk.

Continue reading.

**municipalbonds.com**

Justin Kuepper

Jul 12, 2019

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## Socking Away Money for the Bad Times Requires Strategic State Practices.

**The Volcker Alliance report grades states on their reserve fund balances and policies and makes 10 recommendations for how states can control withdrawals from rainy day funds, replenish spent funds, and address revenue volatility.**

From requiring specific financial conditions be met in order to withdraw money from a rainy day fund to setting a replenishment plan to pay back those drawdowns, a new report outlines some best practices for state governments to save money for an economic downturn.

The Volcker Alliance report, released Thursday, examined the practices of all 50 states and makes 10 best-practice recommendations that states can borrow from to strengthen their own fiscal stability.

The report details best practices in three areas: making withdrawals from rainy day funds, replenishing of funds, and addressing revenue volatility. It also grades states based on their reserve fund balances and policies.

Continue reading.

**Route Fifty**

By Andrea Noble

JULY 11, 2019

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## Municipal CUSIP Request Volume Increases for Sixth Straight Month.

NEW YORK, NY, JULY 10, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for June 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a sixth consecutive increase in requests for new municipal debt identifiers, while other major asset classes were flat in June.

Read Report.

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## What Is a CUSIP Number and What Does It Mean?

**A CUSIP number is Wall Street's bar code for security identification. Here's how it works.**

A CUSIP number is Wall Street’s way of identifying an investment security, like a stock, bond or mutual fund.

Officially, a CUSIP number (more formally known as the Committee on Uniform Securities Identification Procedures) identifies all registered U.S. publicly-traded companies and all U.S. government and municipal bonds. A CUSIP also identifies less traditional investment securities, including preferred stock; funds; certificates of deposit; syndicated loans; and U.S. and Canadian listed options.

The CUSIP number is a powerful aid in helping investment companies, investors, and government regulators track a security, and is especially helpful in managing an efficient trade clearance and settlement process.

Continue reading.

**thestreet.com**

by Brian O’Connell

Jul 8, 2019 7:20 PM EDT

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## How a Blockchain Could Help Roll Out Berkeley's Next Fire Truck.

LAST YEAR, BEN Bartlett, a member of the Berkeley City Council, proposed an unusual idea to his colleagues: putting affordable housing on the blockchain. The city was facing an unprecedented housing crisis and the prospect of cuts to federal housing assistance. Why not turn to local residents to help fund a solution? The city would issue bonds, as governments often do when they need to finance big-ticket projects, and break them up into small pieces called “minibonds.” City residents could invest as little as $25. In return, they’d get a small amount of interest and perhaps a dash of civic pride, too.

The idea behind such tiny bonds, Bartlett says, is to “let the poor rebuild the country and profit from it.” The trouble is, issuing a $25 minibond involves a mess of paperwork and middlemen that can cost more than $25. That’s where he and Berkeley mayor Jesse Arreguin believe blockchain could help. The idea is to automate the financing process, keeping track of all the minibonds in a secure ledger and issuing interest payments in digital tokens.

At first, the idea met with skepticism, not least because Bartlett and Arreguin called their plan an “ICO.” That stood for an “initial community offering,” Bartlett clarifies—not an “initial coin offering,” the fund-raising mechanism often associated with cryptocurrency scams, hype, and regulation dodging. Bartlett says Berkeley’s ICO remained a mundane municipal bond at heart, even if it was to be divvied up into digital tokens. But some of his colleagues encouraged the city to slow down, and the council voted to have city staff examine if it would be feasible. Now, 13 months later, the city plans to seek a vendor for a minibond pilot. The city finance director suggested starting with a fire truck, financed by selling up to $4 million in bonds.

Continue reading.

WIRED

GREGORY BARBER

07.09.1907:00 AM

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## NLC Federal Advocacy Update: Week of July 2, 2019

**In this issue:**

- SCOTUS Throws Out Citizenship Question…For Now
- July 9 Housing Task Force Panel and Report
- Senate Introduces Companion Bill to Overturn FCC Small Cell Order
- EPA, Army Corps Seek Comments on Potential Revisions to Mitigation Rule
- Local Government Lawsuit Against FCC Small Cell Order Moves Forward
- Federal Advocacy Committees SBLM Recaps

**National League of Cities**

July 02, 2019

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## Outcomes-Based Project Assessment Tool.

**Abstract**

As funders and providers of social services seek to improve program impact through new funding models which tie outcomes to funding, they may ask, what makes a strong outcomes-based project? Building off of an existing tool designed specifically for Pay for Success projects, this Outcomes-Based Project Assessment Tool is designed to help stakeholders building any kind of outcomes-based project do so in a way that places evidence and data at the center and ensures partners have the appropriate levels of capacity and commitment. Launching an outcomes-based project can be a winding road. Use this tool to help navigate your course, figure out the critical points along the way, and ultimately arrive at your destination of improving social services and the public good.

Read the Full Report.

**The Urban Institute**

by Justin Milner, Matthew Eldridge & Kelly Walsh

June 28, 2019

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## Fitch Publishes State HFAs: Mortgage Insurance or Guarantee Fund Program Rating Criteria

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

Fitch Ratings-New York-02 July 2019: Fitch Ratings has published an updated criteria report titled "U.S. State Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria." The report replaces the existing criteria of the same title published on June 28, 2018.

There have been no material changes to Fitch's underlying methodology and no rating actions are expected as a result of the application of the updated criteria. The criteria will be used in conjunction with the master criteria "U.S. Housing Finance Agency Loan Program Rating Criteria" published on June 27, 2019.

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## Ripples From Puerto Rico's Debt Crisis Reach the Mainland.

**A lawsuit to invalidate $14 billion of Illinois bonds draws inspiration from the island's restructuring.**

Joe Mysak, Bloomberg News's foremost expert on the $3.8 trillion municipal-bond market, has a saying about Puerto Rico: It was technically "in" the market for state and local government debt, but not "of" it. That is to say, for a number of reasons, it has always been considered an outlier.

Indeed, munis are off to a blistering pace in 2019, with mutual and exchange-traded funds focused on the debt on track to pull in a record amount of cash this year. Investors are buying even though a closely watched gauge of relative value would suggest the bonds are a screaming sell. Never mind that at the start of the year, a federal oversight board argued that more than $6 billion of Puerto Rico's general-obligation bonds should be declared null and void because issuing them in the first place breached the island's constitutional debt limit. It's just an outlier, after all.

Or is it?

Continue reading.

**Bloomberg Markets**

By Brian Chappatta

July 2, 2019, 4:00 AM PDT

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## [Recession, Recovery, Rivalry: 10 Years Of U.S. Higher Education Medians - S&P]

Since the Great Recession ended 10 years ago, the higher education industry has experienced periods of recovery, increasing competition, and growing inequality. In the years following the recession, colleges and universities found themselves in a new, more competitive setting, and at the same time in a more constrained operating and budgetary environment.

Continue Reading

Jul. 2, 2019

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## Improving Transit Through Lyft and Uber? More Agencies Are Paying for Ride-Hailing Rides.

**Experts and transit leaders say that there could be real benefits to working with ride-hailing companies. But data is needed to assess how successful these programs really are.**

Transit agencies are increasingly partnering with ride-hailing companies to expand transportation options for residents, including by offering discounted rides home for late night workers or last-mile transportation to transit hubs.

But whether partnerships work has not always been easy to figure out. Pilot partnerships have gotten off the ground in cities ranging from Philadelphia to Monrovia, California—with Washington, D.C.'s transit agency becoming the latest to announce a program providing discounted rides to late-night workers. And while some local leaders say the experiments are successes, others say they don't have the data necessary to fully assess the programs.

Yet transit experts don't see the trend fading anytime soon, particularly in small municipalities.

Continue reading.

**Route Fifty**

By Andrea Noble

JULY 3, 2019

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## Bank Not Covered for Claims Over Alleged Bond Market Manipulation.

Defense costs incurred by UBS Group AG over litigation allegedly linked to securities law violations in 2009 are not covered by an insurance policy the Swiss banking giant later bought, a U.S. appeals court ruled, upholding a lower court ruling.

The liability policy, issued by XL Specialty Insurance Co. and supported by excess policies issued by units of Axis Capital Holdings Ltd. and Hartford Financial Services Group Inc., specifically excluded legal expense claims related to subsequent litigation, the 1st U.S. Circuit Court of Appeals, which is based in Boston, ruled on Wednesday.

The case pits giants from the banking and insurance industries against each other, Judge Juan R. Torruella wrote in *UBS Financial Services Inc. of Puerto Rico and UBS Trust Co. of Puerto Rico v. XL Specialty Insurance Co., Axis Reinsurance Co. and Hartford Fire Insurance Co.*

"In this case, titans of their respective industries clash as to the interpretation of an exclusion clause in an insurance policy representing millions of dollars in potential coverage. In the process of deciding this appeal, we are granted a glimpse into the ethics that apparently prevail in some sectors of the financial industry," the judge wrote in the ruling.

The case involves allegations against UBS related to its handling of Puerto Rican municipal bond investments. UBS, through its various units, was an underwriter for the bonds and sold shares in closed-end funds containing municipal bonds and was involved in managing 23 closed-end funds.

According to court papers, the U.S. Securities and Exchange Commission began investigating UBS in 2009 for violations of securities laws. The SEC ultimately concluded that UBS misrepresented risks associated with shares in the funds and effectively controlled the prices of the shares by controlling sales in the secondary market for the shares, among other things. UBS paid $26 million to settle the SEC charges.

In 2010, investors from the funds sued UBS claiming the bank operated on all sides of the fund transactions and manipulated the bond market to the detriment of investors and used the funds as a "dumping ground" for "toxic pension bonds," court papers say.

In 2011, UBS sought new insurance coverage for legal disputes through its broker Marsh LLC. XL, which is now a unit of Axa SA, provided primary coverage with a $10 million limit, Axis provided $5 million in coverage on the first excess layer and Hartford provided another $5 million in coverage on a second excess layer.

In the coverage negotiations, UBS requested numerous wording changes, many of which XL agreed to, but it did not agree to changes to the "specific litigation exclusion," court papers say.

The exclusion barred coverage for claims connected to the 2009 SEC investigation and the 2010 investor lawsuit or "in any way" involving the proceedings, the ruling states.

"Crucially, during negotiations, UBS attempted to narrow the scope of the specific litigation exclusion, but XL rejected the proposed changes," the ruling states.

After the coverage was purchased, UBS faced additional lawsuits, arbitration proceedings and another SEC investigation related to its activities in the Puerto Rico bond market.

In 2013, UBS notified XL of expected claims related to the later litigation, but XL denied coverage of defense costs citing the specific litigation exclusion.

UBS and the insurers both filed for summary judgment in 2017. UBS argued the insurers interpreted the exclusion too broadly and that the later legal costs were covered and that claims that occurred after the policy period were "interrelated" with claims during the period the policy was in force. The district court in Puerto Rico ruled for the insurers.

On appeal, UBS argued among other things that the exclusion only applied when there was "substantial overlap" of relevant facts between the prior and current cases.

The appeals court ruled, however, that the terms of the policy are broad "and do not require that the overlap be substantial."

"Although the language is undoubtedly broad, it was the language UBS bargained for," the ruling states.

A spokesman for UBS declined to comment on the litigation.

**Business Insurance**

by Gavin Souter

July 05, 2019

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## [How Federal Tax Reform Is Changing Government Borrowing.]

**Fearing more changes from Congress, states and cities are turning less and less to the municipal bond market.**

While the most direct effects of the 2017 federal tax overhaul have been on tax revenue, the law has also impacted the way governments borrow money.

With banks making fewer direct loans to governments, many expected them to turn to the municipal bond market. But that hasn't happened.

Governments have continued to be reluctant to increase their debt, a trend that started following the Great Recession. According to the latest report from Moody's Investors Service, the total net tax supported debt issued by all 50 states in 2018 was essentially flat for the eighth straight year with just $523 billion issued. This puts average annual state debt growth since 2011 at just 0.6 percent.

Moody's said in its analysis that lagging infrastructure investment has contributed to limited growth in state debt. "State governments are remaining cautious when it comes to bond issuance," the report continued, "and are increasingly relying on operating revenue to meet their transportation infrastructure needs."

As a result of this quiet market, the cost of borrowing has dropped — saving governments millions even as interest rates are rising.

Governments have been reluctant to issue municipal bonds in part because officials fear that Congress may once again meddle with the bonds' tax-exempt status, says Hilltop Securities analyst Tom Kozlik. The 2017 law already eliminated the federal tax-exempt status of advanced refunding bonds, which effectively killed them. Advanced refunding bonds allowed governments to refinance debt earlier and thus take advantage of lower interest rates years sooner.

Koxlik warns that Congress will be looking for more ways to save money this fall because it will likely face another debate about how to reduce the deficit. "Time could be running out on the municipal bond tax exemption," he says, "and it's possible that the advanced refunding repeal is just the beginning."

**Other Programs at Risk**

Ksenia Koban, vice president and municipal strategist at the investment firm Payden & Rygel, is more worried that Congress will do away with grant or matching fund programs.

State and local governments use the money from these programs in two main ways. They can use grant money to directly pay back bonds they have issued. Matching funds, on the other hand, offer an incentive for states and localities because money raised by issuing bonds can be at least partially matched by the federal government.

Municipal bonds are commonly used to finance infrastructure projects. Combined with tax reform, Koban says the uncertainty around the federal government's commitment to infrastructure funding is also creating uncertainty in the municipal bond market. "It's definitely changing the landscape," she says. "We're already seeing a lot more hybrid projects or public-private partnerships while local governments are stepping back from traditional types of projects."

**Banks Bowing Out**

Meanwhile, the 2017 tax law gave banks less of an incentive to invest in municipal bonds. The law slashed the corporate income tax rate from 35 percent to 21 percent. That, combined with rising interest rates, has made low-interest-rate munis less attractive to banks.

Bank holdings of municipal bond debt in 2018 were down $40.9 billion for the year, reports George Friedlander, a managing partner of the Court Street Group.

At the same time, banks' direct loans to governments have also drastically declined. The loans spiked to $40.2 billion in 2017 but are on pace to total just under $7 billion this year.

The severity of this development has been masked by the lack of investment in the municipal bond market. "The implications of this shift would be far greater in a 'normal' muni market, with more total issuance," Friedlander says.

**Low Supply, High Demand**

2018 was one of the slowest years for municipal bond issuance in the past decade. The market hasn't picked up this year, either.

Through the first half of this year, government issuers have sold more than $166 billion in bonds. That's nearly identical to the $165 billion sold halfway through 2018, according to figures compiled by The Bond Buyer.

But even though governments aren't issuing as many bonds, the demand for them hasn't changed. In some places, such as California, demand has increased because of the federal tax overhaul's cap on state and local tax deductions. Taxpayers are looking to shelter more of their income in municipal bonds.

All these events have led to lower interest rates for governments that are selling bonds — despite the fact that the Federal Open Market Committee has raised interest rates by a percentage point since early 2018.

"There's so much more demand than supply," says Koban, "the market's actually sort of behaving unintellectually. It's just not pricing uncertainty and risk the way it should. It shows there's not a whole lot of other places to go if you're looking for quality-adjusted, positive-yield instruments."

GOVERNING.COM

BY LIZ FARMER | JULY 3, 2019 AT 4:00 AM

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## The 7 States That Started the New Fiscal Year Without a Final Budget.

Gov. Gina Raimondo's unwillingness so far to sign to sign the proposed new $9.9-billion budget for the year that began on July 1 has landed Rhode Island on Moody's list of states with "weak governance."

The national credit-rating agency — Moody's Investors Service — issued a special report on Wednesday titled: "Late budgets reflect governance weaknesses."

The seven states that slipped into the new fiscal year on July 1 without a full year budget include: Massachusetts (Aa1 stable), New Hampshire (Aa1 stable), North Carolina (Aaa stable), Ohio (Aa1 stable), Oregon (Aa1 stable), Rhode Island (Aa2 stable) and Wisconsin (Aa1 stable).

Moody's notes that some states have "continuing appropriation bills" — or laws, as Rhode Island does — that allow spending until a permanent budget is enacted. Those laws "together with state bond laws make it unlikely that the delays will pose any risk of missed debt payments."

"Nonetheless, late budgets are a sign of governance weakness which, in extreme cases, can be negative for state credit quality. Late budgets can also expose local governments and other downstream entities to an interruption in state payment," the rating agency said.

Two of the late budgets were vetoed in their entirety, Moody's said. North Carolina's governor vetoed the legislature's budget due to insufficient funding for Medicaid expansion and teacher salaries, while New Hampshire's governor vetoed a spending package due, in part, to increased education funding.

In Rhode Island's case, Raimondo has simply — and without explanation — let days go by without signing the budget bill the Rhode Island House of Representatives approved June 22, the Senate approved unchanged on June 27, and the Senate leadership "transmitted" to the governor last Sunday, June 30.

If Democrat Raimondo does not sign — or veto — the budget bill by midnight Saturday, it will become law without her signature.

Her press team has not answered Journal questions about the reasons Raimondo has not signed the budget bill, except to say her staff is still reviewing the legislation. On Wednesday, her spokesman Josh Block said again: "The Governor is continuing to review the budget with her staff."

He acknowledged, however, that Raimondo is concerned about the ability lawmakers gave the state controller to refuse to "authorize payments for additional staff, contracts, or purchases for any department or agency not projected to end a fiscal year within amounts appropriated unless necessitated by immediate health and safety reasons."

Frustrated lawmakers approved $173,613,232 in over-budget spending for the year that ended June 30, and while most of that was covered by federal dollars, it included $25 million in additional state dollars to cover deficit spending..

“While I support better tools to help control spending, it’s also critical that we have flexibility to address increases in the number of children and families we serve and other unforeseen circumstances,” Raimondo said in a statement released by Block.

“We have made efforts to fill our frontline vacancies in order to meet our legal and moral obligations to care for all Rhode Islanders,” she said. “But I am concerned that new provisions added to the budget could further limit our ability to care for these vulnerable populations and could also create wait lists for these critical services. Over the past four years we’ve made significant progress, and these budget changes could not only put that progress at risk, but halt services for people who rely on them.”

By Katherine Gregg

BY TRIBUNE NEWS SERVICE | JULY 8, 2019 AT 7:49 AM



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## NASBO: States Finalize Fiscal 2020 Budgets

As of July 5, five states with a July 1 fiscal year start date have not yet completed a full-year budget for fiscal 2020. Of the five, one state is awaiting the governor to complete action on the budget bills (Oregon), two governors have vetoed the budget (New Hampshire and North Carolina), and two are awaiting legislative completion (Massachusetts and Ohio). Michigan’s legislature has not yet finalized the budget but the state’s fiscal year does not begin until October 1. Below is additional information on the states that have yet to enact a full-year budget for fiscal 2020:

- Massachusetts – House and Senate members are trying to iron out differences in a conference committee. An interim budget has been signed that authorizes spending through July 30.
- Michigan – The legislature has not finalized the budget yet. However, the state fiscal year does not begin until October 1.
- New Hampshire – The governor vetoed the budget on June 28. A continuing resolution has been approved through October 1.
- North Carolina – The governor vetoed the budget on June 28. State law allows spending to continue at current levels until a new budget is enacted.
- Ohio – House and Senate members are meeting in a conference committee. An interim budget has been signed that authorizes spending through July 17.
- Oregon – Oregon legislature’s completed action on budget bills on June 30. The governor is currently reviewing the various budget bills. A continuity resolution was approved that authorizes spending through September 15, or until an agency’s budget is signed.46 states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1). Governors in 47 states proposed new budgets for fiscal 2020 (30 states will enact an annual budget, while 17 states will enact a biennial budget covering both fiscal 2020 and fiscal 2021). Last year, 3 states enacted budgets covering both fiscal 2019 and fiscal 2020.

Please click here for links to proposed and enacted budgets, as well as budget summaries.

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## [State Savings Policies Evolve Amid a Decade of Economic Growth.]

**The amount states have in reserve is at a high mark and savings practices have become more sophisticated. But lawmakers are at times still drawn to tap the large pots of money.**

When Myron Frans came on the job as Minnesota's revenue commissioner, the state's finances were stretched thin. It was 2011, less than two years after the official end of the Great Recession and the state was facing a $6 billion budget deficit.

"Those were tough times," recalled Frans, who now leads the Minnesota Management and Budget office.

Disagreements between Republican lawmakers and then-Gov. Mark Dayton, a Democrat elected the prior year, over how to contend with that shortfall would contribute to a state government shutdown that lasted about three weeks.

Continue reading.

**Route Fifty**

By Bill Lucia

JULY 5, 2019

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## Report Highlights US Pension Shortfall.

**Funding shortfalls for state and local pension funds are a key source of fiscal fragility in the United States.**

Research by IMF economists indicates that government employee pension fund assets are significantly smaller than their rapidly growing liabilities.

A severe shock in the future could affect resources significantly, making fiscal adjustment necessary, the research indicates.

In the IMF working paper, *Public Wealth in the United States*, economists Fabien Gonguet and Klaus-Peter Hellwig analyse the evolution of the US public sector balance sheet between 1945 and 2016.

They conclude that the country faces "large fiscal adjustment needs" that will require policy changes in the long-term either to raise public revenues in order to keep social promises – or to cut in other areas.

"Under our baseline assumptions, we find that current fiscal policies in the US are not viable in the long-term," write Gonguet and Hellwig.

Continue reading.

**Public Finance International**

by Gavin O'Toole

4 Jul 19

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## Gap Grows Between Well-Off and Troubled State Public Pension Plans.

**The findings from The Pew Charitable Trusts come as the U.S. enters a record phase of economic expansion.**

Poorly funded pension plans for state and local public employees saw their finances erode in recent years despite strong investment returns, as the gulf between states with better and worse-off retirement systems has grown wider.

These findings are presented in a new report from The Pew Charitable Trusts that surveys the health of state-run public pension systems.

The current economic expansion in the U.S., which began in June 2009, is now the longest on record at about 121 months. It has unfolded in the wake of the Great Recession, which took a heavy toll on state and local budgets and the financial health of their pension systems.

Investment losses for the 230 pension plans in Pew's data caused the value of assets held by those plans to drop by 24% during 2008.

In general, public pension plans generate the money they use to pay retiree benefits from employee contributions, taxpayer dollars that flow from state and local agencies in the form of employer contributions, and returns gained from investing this money.

The extended growth cycle has given state and local governments about a decade to rebuild their finances.

But overall in 2017 the pension plans the Pew researchers examined only had about 69% of the assets they needed to fully fund their anticipated pension costs in the coming years.

That level is down from around 86% before the recession.

States in 2017 reported $4.1 trillion in benefits owed to workers and retirees but just $2.9 trillion set aside to cover those costs, leaving a shortfall of $1.28 trillion, the report says.

It adds that the pension funding gap is down from $1.35 trillion in 2016, but this marks only the second time since the recession that the shortfall has decreased.

Illinois, Kentucky and New Jersey, well known for their pension funding woes, reported an average 15 percent decrease in the funded ratios for their retirement systems between 2012 and 2017—even though investment returns were generally strong during that time.

The Pew report emphasizes that these states' pension plans are troubled in part because policy makers did not regularly set aside the amount of money that actuaries estimated would be required to cover the cost of providing promised benefits to retirees.

Shortchanging a pension fund in this way tends to increase costs in the long run.

The report points out that from 2007 to 2017, pension contributions went up 424% in Illinois, 267% in Kentucky, and more than 100% percent in New Jersey.

But the states together still faced an $11.5 billion shortfall to keep their pension debts from growing, the researchers add.

To help put that figure in proportion: total general fund spending in Kentucky during fiscal year 2018 was around $11 billion. And Illinois and New Jersey each reported about $35 billion, according to figures compiled by the National Association of State Budget Officers.

Colorado and Connecticut had less than 50% of the assets in 2017 needed to cover their pension costs, while another 15 states had less than two-thirds of the assets needed to do so.

Other state pension systems are performing quite well. For instance, South Dakota, Tennessee and Wisconsin all have systems that were between 97% to 103% funded in 2017 and that have not fallen below a funded level of 89% in the past two decades.

The Pew researchers note that these states have followed practices like regularly making the full recommended contributions to their funds, automatically lowering benefits or increasing contributions during market downturns and planning based on conservative assumptions.

State and local pension debt as a share of the nation's gross domestic product was roughly in the 1% to 3% range in the years leading up to the recession. But around the time of the downturn it shot upwards, and has been in the ballpark of 8% to 10% in the past few years.

When pension costs rise as a share of state and local government spending, it can reduce the amount of money that lawmakers have available to devote to other priorities.

A full copy of the Pew report can be found here.

**Route Fifty**

By Bill Lucia,

JULY 2, 2019

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## Wall Street Beware: The Public Banking Movement Is Coming for You

It may not come as a surprise to hear that the majority of Americans don't trust the banking system in this country. Only 27 percent of those surveyed in a 2016 Gallup poll said they had "a great deal" or "quite a lot" of confidence in the institution — less than half of the record high set in 1979. And the lack of trust is spread relatively evenly across the political spectrum — it's not just liberals or those on the left: Almost everyone is fed up with the banks.

And if banking institutions don't exactly spark joy, their lead characters — morally bankrupt investment bankers whose greed and arrogance almost singlehandedly collapsed the entire country's economy — certainly don't spark joy either. It's an old story: Bankers made obscene amounts of money destroying the economy, we bailed them out, they walked away from it all without a shred of accountability and there's nothing anyone can do about it. But that's not where the story has to end. Spurred by the need for an alternative to the for-profit, extractive model of finance exemplified by Wall Street, there is a budding movement in the United States that is working to reimagine banking as an institution that truly serves the public.

Public banking is an old idea, but it has never been very common in the United States. The first and only public bank in the country was founded exactly 100 years ago in North Dakota, and it wasn't until relatively recently that the idea has begun to find new life in cities and states across the country. Growing largely out of the need for more democratic ownership over capital, the aim of this budding movement is to create a robust public banking infrastructure across the nation that is rooted in the principles of economic, environmental, racial and social justice.

Continue reading.

**Truthout**

by Robert R. Raymond

July 5, 2019

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## Hedge Fund Challenges $14 Billion in Illinois Debt as Unconstitutional.

**New lawsuit mirrors tactics by Puerto Rico's financial oversight board to drive down public debt**

A hedge-fund manager claiming Illinois has piled up more debt than its constitution permits is suing Gov. J.B. Pritzker and other state officials in an effort to wipe out $14.3 billion in municipal bonds.

New York-based Warlander Asset Management LP and John Tillman, chief executive of the conservative Illinois Policy Institute think tank, said Illinois broke a state rule prohibiting deficit financing by selling debt in 2003 to close a pension gap and in 2017 to pay down government vendors.

Warlander, which holds $25 million in other Illinois bonds, said the outstanding portions of the 2003 and 2017 debt sales should be declared "unconstitutional and unenforceable." The Illinois constitution bars the state from taking out long-term debt except for "specific purposes" or to refinance longer-term debt, according to the complaint filed Monday in Sangamon County Circuit Court.

Illinois instead borrowed to bridge deficits and to speculate on financial markets, the lawsuit said, lowering the state's creditworthiness and heightening the likelihood of default.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the U.S. island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

Emily Bittner, a spokeswoman for Mr. Pritzker, said the lawsuit "is simply a new tactic from the extreme right to interfere in capital markets." Several layers of bond attorneys and former Attorney General Lisa Madigan signed off on the bond offerings, Ms. Bittner said.

The complaint mirrors ongoing efforts by the board overseeing Puerto Rico's tattered public finances to drive down bondholder claims. In January, the board filed court papers arguing that $6 billion in general obligation bonds should be considered worthless because they layered more debt on Puerto Rico than its constitution allowed.

While no court has ruled on those arguments, a bankruptcy-exit framework proposed by the board last month takes them into account and offers a comparatively lower recovery to investors whose claims have been challenged.

Unlike Puerto Rico, Illinois lacks a bankruptcy mechanism to push bondholders into a centralized court proceeding to hammer out restructuring terms. But the state's finances have been stressed for years, pushing its bond rating to the lowest among U.S. states as pension obligations ballooned and a budget stalemate under former Gov. Bruce Rauner from 2015 to 2017 racked up billions of dollars in unpaid bills.

Illinois Comptroller Susana Mendoza, who was also named as a defendant in Monday's lawsuit, said in a statement that the 2017 bond sale helped pay down vendor bills stemming from the budget stalemate and lowered the state's interest rate on that debt to 3.5% from 12%, saving taxpayers billions of dollars. She said the complaint was meant "to scare investors in the bond market for political ends."

While state and local governments nationwide are grappling with how to cover bond payments, pension benefits and infrastructure needs, few are as strained as Illinois, where state courts have largely barred lawmakers from scaling back retirement obligations.

Illinois has found willing lenders despite its precarious finances, demonstrating how investors' appetite for returns can help governments borrow even with credit ratings teetering on junk territory.

Yet analysts have questioned how long the municipal market will continue lending to Illinois at reasonable rates, especially if the economy dips into recession and the state's tax base shrinks. Warlander said interest and principal payments on the 2003 and 2017 bonds will eat up $20 billion over the next 14 years, roughly half the state's overall scheduled debt service.

"Debt service payments on unconstitutional debt like the challenged bonds are an unconstitutional misuse of public funds that will cause irreparable harm to Illinois taxpayers," the lawsuit said.

The 2003 bond sale, still the largest ever by any city or state, generated $10 billion for the Illinois pension systems but didn't solve their funding problem. The persistent shortfall prompted discussion last year of another pension bond more than 10 times as large, though the proposal didn't gain momentum.

**The Wall Street Journal**

By Andrew Scurria

July 1, 2019

*—Gunjan Banerji and Heather Gillers contributed to this article.*

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## Traders Shrug Off Suit Challenging $14 Billion of Illinois Debt.

- **Citigroup calls the legal challenge by hedge fund unjustified**
- **State bond prices dipped slightly, but then bounced back**

A lawsuit Monday seeking to have $14.3 billion of Illinois bonds thrown out by a court lit up the phone lines of Wall Street trading desks, where analysts fielded calls from investors worried about the odds their investment in the state's debt could be worthless.

But trading prices show bondholders see little chance that the legal challenge will succeed.

Taxable Illinois debt issued in 2003, which was targeted in the lawsuit, slipped early Tuesday, when a customer sold $5 million worth for about 103 cents on the dollar, down from an average of 104.5 cents Monday. They swiftly rebounded, however, rising back to 103.8 cents by mid-morning to yield 4.73 percent.

That yield is nearly a full percentage point less than what it was at the start of the year, before Illinois bonds rallied as Democratic Governor J.B. Pritzker paved the way for an income tax increase on the highest earners and ended the political gridlock that dogged his Republican predecessor.

"Illinois had rallied very hard, it was more sensitive to downside recently, but the show of support once it did gap wider also shows the market's lack of belief that this has legs," said Gabe Diederich, municipal-bond fund manager for Wells Fargo Asset Management, which holds Illinois debt among its investments.

Pritzker and Illinois Comptroller Susana Mendoza dismissed the lawsuit as a political tactic by John Tillman, the chief executive officer of the Illinois Policy Institute, a conservative think tank, that will be tossed out of court. The case, also filed by New York hedge fund Warlander Asset Management claims the state's record pension bond sale in 2003 and debt issued in 2017 to pay a backlog of unpaid bills were deficit financings prohibited by the constitution.

Warlander owns $25 million Illinois general-obligation bonds issued in 2001, 2014, 2017 and 2018. Those bonds would be more secure if the firm succeeded in having the other securities invalidated, since there would be more money available to service the debt.

The Illinois Constitution says the state may issue long-term debt only to finance "specific purposes" if approved by three-fifths of the legislature or by popular referendum. Warlander and Tillman argue that deficit financing isn't a "specific purpose" and doesn't encompass the general purposes for incurring debt discussed in the constitution, such as refinancings or short-term borrowing to paper over temporary cash shortfalls until tax revenue comes in.

Analysts are skeptical. Citigroup Inc.'s Vikram Rai and Jack Muller published a note on the case after the bank was inundated with calls. They said the lawsuit is unjustified because the Illinois Constitution allows debt to be incurred as long as the law details the specific purpose of the debt and how it will be repaid. Even if it did succeed, they said, the government would likely find a way to repay the debt to avoid being penalized in the bond market.

"The state will not want to pay zero to the bond holders as it was never their intent to harm the investors," Rai and Muller wrote. "They are more likely to want to make the bond holders whole even if that entails amending the constitution."

Jason Appleson, a portfolio manager at PT Asset Management LLC, said he believed market consensus is that the lawsuit was frivolous.

"I was somewhat surprised to see the initial market reaction that spreads widened out, I would have expected the reaction to be a bit more muted," he said.

Appleson attributed the initial widening to "a couple of scared buyers" affecting a light trading day in a slow market. "If this moves forward in court, I think we could see some more widening but if it's shut down we could see a snap-back in spreads given the market conditions."

**Bloomberg Markets**

By Martin Z Braun and Danielle Moran

July 2, 2019, 10:50 AM PDT

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## Hedge Fund Sues Pritzker to Void $14 Billion of State Debt.

- **Joins with conservative think tank chief to challenge bonds**
- **Governor's office sees 'new tactic from the extreme right'**

A hedge fund run by a protege of Appaloosa Management's David Tepper and the chief executive officer of a conservative think tank sued Illinois Governor J.B. Pritzker, saying $14.3 billion of bonds should be invalidated because their issuance violated the state constitution.

Warlander Asset Management, a New York-based hedge fund formed by Eric Cole, and John Tillman, the CEO of the Illinois Policy Institute, said the state's record pension bond sale in 2003 and debt issued in 2017 to pay a backlog of unpaid bills were deficit financings prohibited by the constitution. The lawsuit was filed Monday in Sangamon County circuit court.

The goal of the debt limits in the state constitution "was to ensure that the state's elected officials would act in a fiscally responsible manner — that they would cut spending or make structural reforms when needed, rather than continually using deficit financing to 'kick the can down the road' for future generations to resolve," the complaint said.

"The state's elected officials have done just the opposite. They have mortgaged the state's future to pay for the present."

The lawsuit comes two months after the federal board overseeing Puerto Rico's bankruptcy and a group of hedge funds sought to have more than $6 billion of the island's bonds declared null and void and shows how the island's effort to cut its debts is reverberating in the $3.8 trillion U.S. municipal-bond market. The Puerto Rico overseers want to have the debt tossed out on the grounds that it was sold after the territory breached its debt limits, a step that some analysts said could undermine confidence in a market that's seen as a haven.

Illinois officials dismissed the lawsuit, saying it was a politically motivated maneuver by small-government advocates that won't advance in court.

"It was meant to generate headlines to scare investors in the bond market for political ends before the filing is laughed out of court,'' Comptroller Susana Mendoza, who was named in the suit, said in an emailed statement. "The markets should see this as nothing more than garbage.''

Tillman's Illinois Policy Institute has been at the forefront of legal challenges to public employee unions and progressive taxation. The institute backed an Illinois employee named Mark Janus in his challenge to the constitutionality of mandatory union fees. In 2018 the U.S. Supreme Court ruled in Janus's favor, dealing a heavy blow to the labor movement.

In 2014, the institute helped defeat a movement to amend the Illinois Constitution and replace the state's flat income tax with a progressive income tax. Pritzker, a Democrat who took office this year, persuaded lawmakers to put a progressive income tax back on the ballot in 2020.

Several layers of bond counsel and the Attorney General signed off on the 2003 and 2017 bond offerings, Emily Bittner, Pritzker's Deputy Chief of Staff for Communications, said in an email.

"This is simply a new tactic from the extreme right to interfere in capital markets," said Bittner. "We're done with the far right's dangerous financial games to pull Illinois underwater. We saw this repeatedly under Bruce Rauner, who funded and executed on John Tillman's pathological focus to drive Illinois into bankruptcy."

**Swelling Debts**

In addition to Pritzker, the lawsuit names as defendants state Treasurer Michael Frerichs and Mendoza. Warlander owns $25 million Illinois general-obligation bonds issued in 2001, 2014, 2017 and 2018. Those bonds would be more secure if the firm succeeded in having the other securities invalidated, since there would be more money available to service the debt.

In a statement, Treasurer Frerichs called the suit a "political stunt." The governor and lawmakers passed a budget that begins to undo the financial harm done during Rauner's term, he said.

"I intend to let Attorney General Kwame Raoul do his job and ask the court to reject this absurd request from Mr. Tillman and the Illinois Policy Institute to have the courts entertain the extremist agenda that the legislature and the voting public have already overwhelmingly rejected."

Illinois has struggled for years with its debts and swelling obligations to its employee retirement system even after it sold $10 billion of bonds in 2003 in an ill-fated bid to pay down some of its obligations. Since 2000, the state's unfunded pension liability and bond debt have grown more than 600% to more than $168 billion, according to a copy of the complaint. Its credit rating is one-level above junk by Moody's Investors Service and S&P Global Ratings Inc., the worst among U.S. states.

Matt Fabian, a partner at Municipal Market Analytics, said investors shouldn't trade based on the lawsuit. Some of the pension bonds due in 2033 were little changed Monday, yielding about 4.6 percent, according to data compiled by Bloomberg.

"It's when the issuer wants to invalidate the bonds where things get worrisome," he said. "The last thing the state wants to do is default on bondholders. So even if, post-miracle, this hedge fund wins its lawsuit, the state is most likely going to do right by its lenders so as to preserve market access."

Article nine, section nine of the Illinois Constitution says the state may issue long-term debt only to finance "specific purposes" if approved by three-fifths of the legislature or by popular referendum.

The state may borrow a limited amount in anticipation of revenue or to meet unanticipated shortfalls only through short-term debt, according to the constitution. In addition, the state can refinance higher-cost debt, but only if the refunding debt matures within the term of the debt that's being retired.

In 2003, Illinois used more than $2 billion of the proceeds of its pension bond issue to reimburse the state for its required contributions in 2003 and 2004, which the lawsuit says was "simply a gimmick to mask the fact that the state was using GO bond debt to fill operating deficits."

About $8.85 billion of the pension bonds remain outstanding and they're among the most actively traded Illinois securities. Major owners include Samsung Life Insurance Co., Capital Group Cos. and Dodge & Cox, according to data compiled by Bloomberg. If the state ceases making principal and interest payments on the debt it could contribute an additional $13 billion to its pensions over the next 14 years, according to the complaint.

In 2017, the state issued $6 billion of of general-obligation debt backed by income taxes to pay off a portion of a $15.2 billion backlog of unpaid bills that had accumulated during the previous two years, when then-Governor Bruce Rauner and the legislature failed to pass a budget.

Using bond money to cover general expenses, speculate in the market, or pay past-due bills isn't a "specific purpose" for incurring state debt, but rather another name for deficit financing, the complaint said.

"The burden of servicing this unconstitutional debt fall on the taxpayers of Illinois, including Plaintiff John Tillman" and harms holders of other GO debt like Warlander by reducing the state's ability to service the debt.

**Bloomberg Markets**

By Martin Z Braun

July 1, 2019, 7:52 AM PDT Updated on July 1, 2019, 3:15 PM PDT

*— With assistance by Boris Korby*

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## [Cyberattack Forces Georgia Agency to Shut Down Websites.]

ATLANTA — A Georgia state agency says a cyberattack has forced it to shut down some court websites.

News outlets report hackers demanding a ransom infected computers with malware at the Georgia Administrative Office of the Courts. Agency spokesman Bruce Shaw said Monday that officials have "quarantined our servers and shut off our network to the outside."

It wasn't immediately clear how many Georgia courts were affected, or to what degree their operations were interrupted. The agency's website, www.georgiacourts.org , was offline Monday. Websites for the Georgia Supreme Court and court clerks in the state's larger counties appeared to be operating.

The Georgia Administrative Office of the Courts provides computer applications to some local probate and municipal courts. Shaw said the agency doesn't store private information aside from what's in public court documents.

**By The Associated Press**

July 1, 2019

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## [The Week in Tech: What Should Your City Do if It's Hit by Ransomware?]

Hi, I'm Jamie Condliffe. Greetings from London. Here's a look at the week's tech news:

Imagine you're a mayor trying to spend your city's money wisely. You've heard about ransomware attacks, where hackers locking I.T. systems using encryption and demanding money for their release. But what should you do about them?

Ideally, you'd ensure systems are up-to-date and properly backed up. But it's "unrealistic" to expect many cities to afford big security overhauls, according to Gregory Falco, a cybersecurity entrepreneur who teaches at Columbia, Harvard and M.I.T. as well as researching at Stanford.

And it might never happen, right?

Continue reading.

**The New York Times**

By Jamie Condliffe

July 5, 2019

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## A City Paid a Hefty Ransom to Hackers. But Its Pains Are Far From Over.

LAKE CITY, Fla. — Audrey Sikes, city clerk of Lake City, Fla., has a thing for documents: She does not like losing them.

It falls to Ms. Sikes, as official custodian of records for this city of 12,000 people about an hour west of Jacksonville, to maintain Lake City's archives. She keeps a log of public record requests and has spreadsheets that track things like property deeds and building permits. She spent years digitizing all the papers of a city that incorporated before the Civil War.

"It's everything I do," Ms. Sikes said.

Did.

Continue reading.

**The New York Times**

By Frances Robles

July 7, 2019

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## Post Platte Default: Sell All Your Appropriation-Backed Municipal Bonds?

The failure of Platte County, Missouri to appropriate funds to pay debt service on the Zona Rosa Retail Project raised questions as to the enforceability of the security pledge of appropriation bonds in general in the municipal bond market.

**Appropriate Appropriation**

Municipal borrowers' issue annual appropriation-secured debt to fund various projects for numerous reasons. The central reason is that annual appropriation debt is not general obligation debt. It doesn't count against the general obligation debt caps, constitutional, or statutory limits most municipalities have. Not being directly secured by property taxes, there is no immediate economic consequence to residents.

Equally, there may be other revenues pledged to pay debt service. In Platte County, it was expected the sales taxes from the Zona Rosa shopping area would cover debt service. The appropriation was viewed as a back-stop security.

Continue reading.

**Forbes**

by Barnet Sherman

June 26, 2019

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## Cyberattacks On Municipalities Can Tank Your Bond Portfolio.

When you think of cyberattacks you probably assume attacks on your bank account, your credit cards, or your brokerage accounts. There's a new risk. Now, when you hear of such breaches add your municipal bond issuers to the victim list.

**Ransomware—the weapon of choice**

Cyberattacks use ransomware viruses as the preferred infection vector. This is now an enormous risk to municipalities that issue bonds. These include cities, water districts, wastewater facilities, hospitals, utilities—really any entities that issue municipal bonds.

Don't for one minute think that such attacks are only inflicted on small cities or systems. The city of Atlanta was hacked and it affected nearly 6,000,000 people.

Hackers recently stole the infamous Stuxnet cyber worm developed and deployed to attack Iran's nuclear centrifuges. Somehow this cyber-weapon got out into the wild and is now among the hacker's tool of choice. Hackers have breached the city of Baltimore's computers. Erie County Medical Center in New York was hacked, bringing down the computer that ran their level one trauma center for six weeks.

The thread of commonality is simple: cyber criminals hack a facility, disable it, demand a ransom often in untraceable bitcoin, then promise to release the data after payment. That may or may not happen.

**Municipalities as cyber-attack targets**

Cyber criminals hack large and small systems, creating total chaos. It's easy to understand the necessity for computer assistance at hospitals. Cities, on the other hand, are more difficult. In the Baltimore hack residents couldn't pay water bills or parking tickets. Permits of all kinds were held up. There were no government emails nor emergency services deployed via the automated dispatch system. In other words, things ground to a halt. Baltimore's cost of recovery was around $18 million—money for which the city hadn't budgeted.

The small city of Riviera Beach, Florida (population 35,000) was hacked with a ransom demand of $600,000 payable in bitcoin. Riviera Beach had cyber ransom insurance. Still, like any policy questions arose of how quickly the insurance company would pay the ransom. In general, insurance payoffs take weeks. There may also be protracted litigation. Not a good thing when critical systems are down.

Now mix into all these cyberattacks the very real risk that even if the hospital, utility, city, or water district pays the ransom, will the frozen data be released. Maybe, maybe not. Cybercriminals have proven themselves totally untrustworthy.

**Risk to investor's bond portfolios**

At Envision Capital we once had a client who transferred into his account municipal bonds issued by a city that was hacked. The city paid the outsized ransom. Still, questions arose as to what this will do to that city's finances and to its credit rating.

It's imperative that you connect the dots regarding your individual municipal bonds. If a city council, hospital board, or utility commission does not have updated cybersecurity then your investment is on borrowed time. Disabling any of the aforementioned entities means lost revenue, ransom they probably cannot pay, insurance that may or may not pay, uncollected bills, missed payroll—the falling dominos can be numerous.

**Protecting your bond portfolio**

The only way to protect yourself as a municipal bond investor is to keep your allocations between 3%-5% in any single large or medium-sized hospital, utility, city, water district, or other municipal issuer. Over-allocating beyond that maximum range allows a cyber hack that kidnaps the issuer's computer systems and holds them for ransom to have a worse effect on your bond portfolio than it should.

As hackers test vulnerabilities of cities, municipal systems, infrastructures, and facilities the underlying municipal bonds are in jeopardy. It's a bond investor best practice to add cyberattacks to your list of municipal credit risks.

**Forbes**

by Marilyn Cohen

Jun 25, 2019

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## [Fitch Rtgs: Coal Power Pressured Despite Affordable Clean Energy Rule]

Fitch Ratings-New York-25 June 2019: The US Environmental Protection Agency's (EPA) new Affordable Clean Energy rule has a limited near-term effect on public power issuers and will not change the long-term pressure on most public power utilities to reduce carbon dioxide (CO2) emissions, says Fitch Ratings. The new rule may result in a slower decline in coal-fired generation; however, it will not change the dynamics that have driven dramatic increases in both natural-gas fired and renewable generation. Competition from natural gas, state level renewable mandates and increasing interest in renewables from consumers, local governments and investors are expected to drive public power issuers toward emission reduction strategies.

The rule allows states to set carbon emission standards for coal-fueled power plants. States have three years to submit plans. The timeframe and the flexibility provided to the states allow coal-dominant public power issuers more leeway as they pursue economic dispatch of their resources. Issuers could opt to delay plans to shutter coal-fired capacity, benefitting from the continuance of capacity payments. Public power and cooperative utilities operating in states subject to high electricity and carbon reduction costs will benefit the most in the short to medium term from the new rule, as compliance costs will be less onerous.

Any increased flexibility, however, is expected to be short lived as cheaper natural gas and renewable energy, state carbon reduction targets, and consumer and investor decisions will increasingly pressure fossil-fired generation and facilitate the move toward lower CO2 emissions. There are 20 states that adopted renewable energy standards or goals applying to municipal and/or cooperative utilities. These initiatives, together with voluntary policies aimed at limiting investment in thermal coal, will push issuers to consider resource strategies and capital investments promoting reduced emissions. Furthermore, existing EPA rules, including those designed to reduce mercury, air toxins, effluent emissions and address risks related to the disposal of coal combustion residuals are expected to weigh on coal-fired power plants over time, requiring meaningful capital investment and limiting or raising the cost of operations.

The US Energy Information Administration forecasts that coal-fired generation as a share of US total utility electricity generation will continue to decline, averaging 24% in 2019 and 23% in 2020, down from 27% in 2018. Approximately 69 gigawatts (GW) of coal-fired capacity were retired since 2007. Existing coal-fired capacity totaled 239 GW at YE 2018. Total capacity is expected to decline to 223 MW by YE 2020 reflecting anticipated retirements.

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

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## Fitch Publishes U.S. Housing Finance Agency Loan Program Rating Criteria.

Link to Fitch Ratings' Report(s): U.S. Housing Finance Agency Loan Program Rating Criteria

Fitch Ratings-New York-27 June 2019: Fitch Ratings has published a consolidated master criteria report titled “U.S. Housing Finance Agency (HFA) Loan Program Rating Criteria”. The report replaces the following existing criteria, which will be withdrawn upon publication of the master: “U.S. State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria” (dated Feb. 4, 2019); “U.S. State Housing Finance Agencies: MBS Pass-Through Bond Rating Criteria” (dated April 29, 2019); and “U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria” (dated Dec. 14, 2018).

The master criteria report sets out broad attributes for each key rating driver that is part of Fitch’s general methodology for assigning ratings for HFA affordable housing loan securitization programs. The three appendices, formerly stand-alone criteria reports, more fully define the key attributes and provide indicative metrics and stress levels for the following HFA loan programs: (1) single-family loan programs; (2) pooled multifamily loan programs; and (3) mortgage backed security (MBS) pass-through programs.

As part of the consolidation, the scope of the criteria was broadened to include bonds issued by local HFAs that are similar to those of state HFAs in terms of portfolio size, debt outstanding, and management oversight (in the criteria, all referred to as ‘HFAs’).

No changes to the ratings of existing transactions are anticipated as a result of the application of the consolidated rating criteria.

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

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## Opioid Judge Calls Proposed Settlement Group a ‘Novel Approach.’

- **Judge wants input from state AGs, some defendants on idea**
- **Such classes are usually formed only after reaching deal**

A judge backed a push by U.S. cities and counties suing opioid makers such as Purdue Pharma LP and Johnson & Johnson to negotiate a settlement as a group but put off until August a final decision on the request.

U.S. District Judge Dan Polster, overseeing more than 1,900 lawsuits by U.S. municipalities, said Tuesday that the idea of creating a negotiating class of local governments to spur settlement talks was an innovative one. Normally, such classes are formed only after a tentative deal has been struck.

Reaching an accord in a case where cities and counties seek hundreds of billions of dollars from makers and distributors of opioid painkillers "may need a novel approach," the judge said at a hearing in Cleveland. He delayed his final ruling until Aug. 6 so he could hear comments about how the class should be structured.

But some state attorneys general, along with opioid distributors such as McKesson Corp. and Cardinal Health Inc., asked Polster to hold off on approving the class. They say that it's too early in the case to create such a group and that it could force some municipalities to join the litigation when they're not yet ready.

Setting up this type of class "constitutes a new and novel procedure that could result in a grave miscarriage of justice and do significant harm to the ability of states to protect their own people," Attorney General Ken Paxton of Texas said in a letter to Polster.

Kristin Hunter Chasen, a McKesson spokeswoman, didn't return a call seeking comment on whether the company opposes the creation of the class. Brandi Martin, a Cardinal Health spokeswoman, didn't have an immediate comment.

The governments, along with some Native American tribes, fault opioid makers and distributors for creating a national public-health crisis by illegally promoting and handing out the addictive painkillers despite multiple warning signs that they were being abused. The cases have been consolidated before Polster for pretrial information exchanges and test trials. The first two cases are set to be heard by juries in Cleveland in October.

Settlement talks involving the companies, states and local governments have been ongoing for more than two years, but they've snagged because opioid makers and distributors want to resolve all of their liability in one deal.

"Everyone agrees these cases can't be settled piecemeal," Polster told a packed courtroom. "The defendants won't settle without closure. There needs to be a vehicle to do that."

The proposed class would bring together the more than 24,000 U.S. municipalities -- the vast majority of which haven't yet filed suit -- for negotiation purposes. The only way cities and counties can escape the class is to file a so-called opt-out notice.

Some of the companies involved the cases consolidated before Polster have already settled some state claims against them. Purdue Pharma LP agreed in March to pay $270 million to Oklahoma to pay for opioid treatment efforts.

Teva Pharmaceutical Industries Ltd. followed suit last month and agreed to pay $85 million to settle the state's claims over its opioid painkillers. Attorney General Mike Hunter of Oklahoma is pressing ahead with a trial against J&J over its handling of the opium-based drugs.

The case is In Re National Prescription Opioid Litigation, 17-md-2804, U.S. District Court, Northern District of Ohio (Cleveland).

**Bloomberg Business**

By Jef Feeley

June 25, 2019, 11:50 AM PDT

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## [Wall Street Muni Analysts Say Best of 2019 Is Already Behind Us.]

- **Market largely seen steadying after best start since 2014**
- **No dramatic shifts seen, with yields seen holding low**

An unbroken flow of cash into the municipal-bond market since early January has driven the securities to a 5.1 percent return, the best start to a year since 2014, according to Bloomberg Barclays indexes.

At the same time, the pace of new debt sales have yet to fully rebound from the steep slowdown of 2018, rising some 6 percent to about $164 billion. The mismatch between supply and demand helped push prices to record highs relative to Treasuries until last month, when the less volatile state and local government bonds lagged amid the rally set off by speculation that the Federal Reserve will cut interest rates.

Wall Street municipal-debt analysts foresee few dramatic shifts in the next six months, largely anticipating that most of the market's gains have already been reaped.

- Mikhail Foux, Barclays Plc: Says new debt sales may fall short of his initial target of $370-380 billion. Expects yields to end the year lower than they are now. But he doesn't anticipate that munis will gain as much as Treasuries and expects that the ratio of muni yields to Treasuries — a key measure of relative value — will rise. That would indicate the tax-exempt securities have gotten cheaper in comparison.
- Peter Block, Ramirez & Co: Expects a modest pickup in debt sales, with an additional $170-180 billion during the rest of the year. He said it's a "reasonable assumption" that mutual funds will continue to pull in cash, barring some dramatic change to the outlook for interest rates or the economy.
- Ian Rogow, Yingchen Li, Bank of America Corp.: Predict that muni prices will get more expensive, relative to Treasuries, pushing down yield ratios. New debt sales are on pace to fall short of their $365 billion annual target for 2019, despite an expected pickup in the next six months.
- Alan Schankel, Janney Montgomery Scott: Foresees only about $320 billion of debt sales this year, far short of his original expectations. Total returns should end year "somewhere in the neighborhood of 6%," largely because of coupon payments, not price appreciation, as benchmark yields hover around current levels. Expects 10-year yields to end the year at around 80% of Treasuries, roughly where they are currently.
- Chris Mier, Loop Capital Markets: Anticipates returns of "something like 6-8%" for the year and sales of $340 billion. He expects inflows to continue but says the rate may slow slightly, and envisions yields will end 2019 close to 75% of Treasuries. "I don't think we'll revisit the lows or set a new low for ratios, but we are likely to improve from where we are," Mier said.
- Patrick Luby, CreditSights: Expects positive returns in the second half, but said any specific target "would be too long of a guess." He said benchmarks yields could go lower, but not by a lot, and he wouldn't be surprised if muni prices richen from current valuations. Expects new sales to be in the lower end of his original forecast of $365-390 billion for the year.

**Bloomberg Markets**

By Donald Moore and Jon Dominick Querolo

June 27, 2019, 10:33 AM PDT

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## [In Absence of Federal Money, Local Governments Spend Millions to Help Asylum Seekers.]

**President Trump's ending of the safe release program is costing cities and counties. Congress is debating a bill that would at least partially reimburse them.**

SPEED READ:

- Since President Trump ended the so-called safe release program last fall, local governments have been picking up the costs of handling asylum seekers.
- The expenses have cost San Diego County, Calif., an estimated $2.3 million so far.
- The problem isn't just along the southern border.

As Congress enters a standoff over a $4.6 billion border aid bill, scores of local governments say financial relief can't come fast enough.

Cities and counties, particularly along the border with Mexico, are spending millions of dollars screening people entering the country seeking asylum and placing them in a temporary home while they await their legal hearing. It's a job the federal government used to do until last fall when President Trump ended the so-called safe release program that processed asylum seekers and set them up with housing.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 28, 2019 AT 4:00 AM

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## Another Florida City Hacked: This Time for $490,000 Ransom.

Lake City, facing a ransomware demand, authorized the payment of $490,000 in bitcoin to a hacker in order to regain access to its phone and email systems.

The city, north of Gainesville, agreed to give the attacker 42 bitcoins, an untraceable electronic currency. As of Tuesday evening, that was worth $490,421. Lake City is on the hook for a $10,000 deductible on its insurance policy with the Florida League of Cities, which will pay the balance.

Ransomware is a malware program that hacks systems, making emails, files, telephones and other systems inoperable. Typically on attacks, a hacker infects computer systems with computer code that encrypts data. The only way to decrypt the data is to have access to a key, some code held in ransom by the hacker.

The attack hit the city on June 10 after being targeted with malware attack known as "Triple Threat." The ransom request came days later.

"It's not uncommon for them to wait, then they hit you with the request," said city spokesman Mike

Lee.

Lake City immediately disconnected its systems within 10 minutes of the attack, Lee said, but were still unable to recover its email system. He said the city lost phone services for about a day, but was able to reroute calls through the emergency system with no delays to incoming emergency calls.

The city approved the payment to the attacker, using its insurance provider, the League of Cities, during an emergency council meeting Monday night.

The ransom was paid Tuesday, giving the city a receipt of the decryption key from the attacker. Some emails have been restored as of Tuesday, but many are still inoperable. Law enforcement is investigating the attack, Lee said.

In May, Recorded Future published a report that showed ransomware attacks were a growing problem for local governments.

So far in 2019, more than 20 cities have received a ransomware attack, though some have been more successful in thwarting efforts than others.

Last week, Riviera Beach, a city of about 35,000 people, agreed to pay $600,000 for a ransomware request. Marion County in 2017 was also attacked but was able to quickly recover the two government computers impacted. The county maintains that no important information was jeopardized and that it has increased cyber security and developed counter measures.

Lee said Lake City is in the process of implementing changes, such as additional training, to prevent future attacks.

By Andrew Caplan

BY TRIBUNE NEWS SERVICE | JUNE 28, 2019 AT 8:23 AM

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## Coastal Cities Rethink Zoning Regulations in Fight Against Climate Change.

**From Boston to Miami, coastal cities are changing where and how developers can build in order to protect homes and property from future flooding.**

After Hurricane Matthew in 2016, the Virginia Beach City Council had a change of heart.

The storm dropped between 14 and 18 inches of rain in less than 12 hours, leading to severe flooding. A couple years later, when a developer wanted the city to rezone 50 acres of land to build 32 homes, the council said no, even though it had previously approved residential development near the proposed site.

Argos Properties promptly sued. But in April, a judge ruled that the council had the authority to deny the application.

Virginia Beach is far from alone.

As severe weather has increased, more and more coastal cities from Boston to Miami have revamped their flood maps and placed more scrutiny on zoning decisions in order to protect homes and property from the long-term impacts of sea level rise. According to a 2018 study published by the

National Academy of Science, the sea level will rise by more than two feet by the end of the century.

Boston has been at the forefront of this move.

The city created the Green Ribbon Commission in 2013 to study policy solutions that will mitigate the impact of climate change. It is also in the process of creating a flood resiliency overlay district, where developers can build in areas that will be impacted by sea level rise but under special rules.

“In Boston, we are taking a proactive approach to planning for climate change and rising sea levels,” says Molly McGlynn, a spokeswoman for the Boston Planning and Development Agency. “It is our goal that these guidelines will provide specific direction on implementing resilience measures to protect our waterfront and its residents for years to come.”

Miami is making similar moves.

In April, the city council passed rules to literally lift some residents out of floodwaters. Miami once required new construction to be elevated at least one foot above the floodplain, but it will now elevate those new homes five feet above floodwaters. New retail construction and infrastructure improvements will also have to be elevated.

“These are high priorities for people looking at how to protect communities from the impacts of climate change,” says David Cash, dean of the University of Massachusetts, Boston’s McCormack Graduate School of Policy and Global Studies.

Zoning isn’t the only aspect of resiliency that governments are rethinking, says Cash.

Boston, for example, once looked to a sea wall to fend off sea level rise, but the option was deemed too expensive and ineffective. Cash says permanent berms, such as river levees on the Mississippi or sand dunes near oceans, are a more effective option for dampening the impact of sea level rise.

GOVERNING.COM

BY J. BRIAN CHARLES | JUNE 27, 2019 AT 4:00 AM

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## Governmental Accounting Standards Board Proposes Updated P3 Guidelines: Ballard Spahr

The Governmental Accounting Standards Board (GASB) has released proposed expanded guidelines for public-private partnerships and public-public partnerships (both referred to as P3s) that recognize increased use of P3s in more varieties of agreements. GASB’s existing guidance for these types of arrangements was issued in November 2010 and many newer P3 arrangements fall outside the limited scope of the 2010 guidance. The guidelines, which GASB released on June 13, also provide guidance for availability payment arrangements (APAs).

The primary objective of the guidelines is to improve financial reporting by addressing issues related to P3s and APAs. The guidelines provide uniform guidance on accounting and financial reporting for transactions that meet the expanded definitions of P3s and APAs set forth below.

**P3s**

P3s are defined in the guidelines as arrangements in which a government transferor contracts with a governmental or non-governmental operator to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

This definition expands on the 2010 guidance that covered service concession agreements, which are a type of P3 arrangement under which a private partner operates and maintains the infrastructure asset, collects revenues, and handles the debt payments.

**APAs**

APAs were not defined in the 2010 guidance, but are defined in the guidelines as arrangements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction. Government payments are based entirely on the asset's availability rather than revenues or similar measures of demand.

**Guidelines**

In an effort to have more transparency and consistency, to allow users to understand the scale and importance of a government's P3, and to allow users to evaluate a government's future obligations and assets resulting from P3s, the guidelines require that governments report assets and liabilities related to P3s consistently and disclose important information about P3 transactions. The guidelines describe what the transferor and the operator should recognize on their respective financial statements for different P3 arrangements. For example, the guidelines provide that if a P3 asset is an existing asset of the transferor, at the commencement of the P3 term, the transferor should continue to report the underlying P3 asset and should continue to apply other accounting and reporting requirements, including depreciation. If, however, the P3 arrangement requires the operator to return the underlying P3 asset in its original or enhanced condition, the transferor should not depreciate the asset during the P3 term.

The guidelines provide more relevant and reliable information for financial statement users, including: (1) a general description of P3 arrangements; (2) the nature and amount of assets and deferred inflows and outflows of resources related to P3s that are recognized in the financial statement; (3) the discount rate(s) applied to the measurement of receivables for installment payments; (4) the amount of inflow and outflow of resources recognized in the reporting period for certain payments; and (5) the nature and extent of rights retained by the transferor or granted to the operator.

The guidelines provide guidance on how transferors should measure receivables, including fixed payments, variable payments, and amounts to be received under residual value guarantees, as well as how to measure deferred inflows. They also provide guidance on how operators should measure the liability for installment payments and right-to-use assets.

The guidelines would be effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

Comments are due on September 13, 2019.

**by the Public Finance Group**

**June 27, 2019**

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## [Supreme Court Removes Obstacle For Plaintiffs Asserting Takings Claim In Federal Court: Day Pitney]

In a decision issued on June 21, in *Knick v. Township of Scott*, 588 U.S. ___ (2019), the Supreme Court of the United States eliminated a long-standing rule that a property owner may not seek redress in federal court for an actual or regulatory "taking" of its property by a state or local government until its claim has first been denied in state court.

Prior to *Knick*, the controlling precedent on this issue was set forth in *Williamson County Regional Planning Commission v. Hamilton Bank of Johnson City*, 473 U.S. 172 (1985). In that case, the Court addressed the Takings Clause of the Fifth Amendment, which provides that "private property [shall not] be taken for public use, without just compensation." The Takings Clause is applicable when a public body takes actual possession of private property, and also when there is a regulatory taking, which means that government regulations have been applied to such a degree that the property owner is effectively deprived of the use or value of the property. In *Williamson County*, the Court's majority held that if a private owner contends that a state or local government has effected a regulatory taking, and there is an adequate procedure for the property owner to seek just compensation under state law, then the property owner must first avail itself of the state procedure, and be denied just compensation, before it can claim a violation of the Takings Clause of the Fifth Amendment in federal court.

The *Williamson County* rule was eliminated in *Knick*. Chief Justice John Roberts, writing for the majority, noted that the *Williamson County* rule had come under fire in light of the Court's more recent holding in *San Remo Hotel v. City and County of San Francisco*, 545 U.S. 323 (2005), providing that a state court's resolution of a claim for just compensation under state law will generally carry preclusive effect in any subsequent federal suit. In *San Remo* itself, four Justices—Chief Justice Rehnquist, Justice Kennedy, Justice O'Connor and Justice Thomas—issued a concurring opinion to note that the "justifications for [*Williamson County's*] state-litigation requirement are suspect, while its impact on takings plaintiffs is dramatic." Fourteen years later, a majority of the Court echoed those concerns in *Knick*. The Court reasoned that under *Williamson County* a "takings plaintiff … finds himself in a Catch-22: He cannot go to federal court without going to state court first; but if he goes to state court and loses, his claim will be barred in federal court." The *Williamson County* rule was therefore an "unjustifiable burden" on a property owner's right to seek federal review of its claim for unconstitutional treatment by state officials and, as such, was overruled. The new rule, as articulated by the *Knick* majority, is simply stated: "A property owner has an actionable Fifth Amendment takings claim when the government takes his property without paying for it." A property owner need no longer exhaust available state procedures to seek redress in federal court for an actual or regulatory taking by a state or local government. No more will "federal takings claims … be singled out to be confined in state court." *San Remo,* 545 U.S. at 351 (Rehnquist, C.J., concurring in the judgment).

**Publisher: Day Pitney Alert**

June 26, 2019

Day Pitney Author(s) John W. Cerreta Anthony J. Marchetta Mark Salah Morgan Kevin J. Duffy

## Municipal Debt and the Looming Recession Talks.

**As the U.S. economy continues its longest period of growth and expansion, many leading economists have been warning investors of the inevitable slowdown of the economy, potentially leading to a recession.**

Where some economic indicators such as the ISM manufacturing index, inflation and initial jobless claims suggest a strong growth continuation of the U.S. economy, other indicators suggest the opposite. In March 2019, one of the leading and most reliable recession indicators, the yield curve, witnessed an inversion where the yield on 10-year \treasuries fell below the 3-month yield for the first time since 2007 when the U.S witnessed one of the worst economic downturns in history.

In this article, we will take a closer look at the looming concerns for investors in municipal debt, some critical checks before investing in municipal debt instruments and a temperature check for local government leaders to see if they are prepared for an economic downturn in their respective jurisdictions.

Continue reading.

**municipalbonds.com**

by Jayden Sangha

Jun 26, 2019

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## Paying a Hacker's Ransom Shouldn't Be a Crime.

**A federal law outlawing the practice would be a very bad idea.**

I recently suggested that Baltimore might perhaps consider giving in to ransomware demands by unknown hackers who so cleverly froze the city's computer network last month that much of it remains inaccessible. Then came last week's news that the much smaller city of Riviera Beach, Florida, agreed to pay $600,000 to get its own computer services unlocked. This entirely rational act has led to considerable online criticism — including an editorial in the Washington Post demanding "a federal law banning ransomware payments."

Well.

Let me suggest, as gently as possible, that this is a very bad idea. I'm not pro-ransomware; but I'm very much in favor of leaving difficult and complex decisions to those entrusted with making them.

To begin with, it's not entirely clear whether there actually is a crisis. News stories keep insisting that ransomware attacks targeting cities are on the rise, but without official data it's hard to tell. A May 2019 blog post from Recorded Future, a cybersecurity firm, found 46 attacks on 2016, 38 in 2017, 53 in 2018, and 21 during the first four months of 2019. Each attack imposes terrible costs, but these numbers hardly signal an epidemic.

Corporations, because they have the deepest pockets, remain the major targets. Nevertheless, as corporate security improves, it's only logical for hackers to try extorting other entities. Cities are an obvious target in large part because they're notoriously terrible at protecting their systems. For those whose protection systems are weak — or for that matter who can't get their employees to stop clicking on unsafe links while at work — ransomware attacks will only get worse.

Getting locked out of your own systems until you pay a hacker a bunch of bitcoins might seem like punishment enough for those with sloppy cybersecurity. So what's the argument for adding legal penalties when the target, out of options, decides that the path of least resistance is to give the hackers what they seek? Here's the Post: "Morally, taxpayer money should not be used to reward criminal enterprises. Practically, if cities collectively stop providing that reward, hackers may pack up their keyboards. Every dollar — or, more accurately, every bitcoin — that cities turn over to cybercriminals encourages them to continue attacking, and it also gives them the resources to do so more effectively and more often."

Each of these claims may be correct.1 But while they might add up to an argument against the wisdom of paying ransom, they don't explain why the target shouldn't be allowed to pay if it would rather regain control of its own systems than stand up and make a point. Security consultants concede that situations may arise in which paying the ransom makes the most sense.

Yes, giving in to demands generates more demands. And we can all hope for stronger spines — not only in the leaders of cities whose computers have been hijacked, but also in college administrators and presidential contenders and social media companies, all of whom too often display the distressing habit of yielding to the mob. In so doing they must surely encourage more mobs. But much as I might wish they'd more often stand up and fight back, I hardly want to make it illegal for them to give in.

It's fine to articulate a strong principle against yielding to extortion; as I have pointed out, frequent and clear articulation of this principle by those in positions of power might in and of itself serve as a deterrent. But principle is different from law, and by keeping them separate, we enable those who must actually make the decisions to weigh any of 100 factors that those drafting a statute can never take into account.

Consider, by analogy, the oft-stated principle that the U.S. does not negotiate with terrorists. Leaders repeat this rule time and again, but the rule does not actually mean what it says, because at times the U.S. does negotiate with terrorists. The existence of a strongly articulated and often repeated principle isn't hypocrisy; instead, it exerts strong pressure on decision makers to keep the exceptions rare. Still, those exceptions will arise, and we leave the determination to the judgment of the political actors of any given moment.

Surely the same rationale should be applied to municipal leaders (or corporate leaders or anyone else) who face a ransomware demand. Refusing to pay is often admirable. It's not at all clear, however, that it's the right answer in every case. The target might have a variety of perfectly sensible reasons for giving in, such as the expense in time and money. Citizens of a municipality that has been targeted can hardly be expected to bear the costs of someone else's principle.

Hijacking a computer system belonging to someone else is an outrageous violation of property and privacy rights. Such acts are prohibited under any number of federal statutes, including the Computer Fraud and Abuse Act and the Electronic Communications Privacy Act, and under a growing number of state enactments.2

But all these many laws punish only the hackers who seek to extort money from people or entities in return for giving back the target's own property — practical control over the hijacked system. None of them purport to punish the targets for how they choose to respond.

When one is facing extortion, it's often brave and admirable to stand up voluntarily to the demands of the extorter. It's wrong and overbearing to require such bravery by law.

1. OK, maybe not the implication that taxpayer funds (that is, monies held by governments) are more precious than, say, private funds.
2. Even in the absence of any special laws, to break into someone else's system would clearly constitute common law trespass, and perhaps common law conversion as well.

**Bloomberg Opinion**

By Stephen L. Carter

June 25, 2019, 6:00 AM PDT

Stephen L. Carter is a Bloomberg Opinion columnist. He is a professor of law at Yale University and was a clerk to U.S. Supreme Court Justice Thurgood Marshall. His novels include "The Emperor of Ocean Park," and his latest nonfiction book is "Invisible: The Forgotten Story of the Black Woman Lawyer Who Took Down America's Most Powerful Mobster."

Follow @StepCarter on Twitter

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## 'Moneyball' Approach To Closing the $2 trillion Infrastructure Finance Gap.

This spring, President Trump and the Democratic leadership in Congress agreed on a number: $2 trillion is what it will take to get America's infrastructure a passing grade. The American Society of Civil Engineers' most recent report card gave it a D+.

While the negotiation has come to a stand-still, the degradation of our roads, bridges, water distribution systems and the like, has not. Rather than wait on Washington, I believe we can begin to solve these problems now. How? The answers lie in data — specifically in emerging 21st-century financing and business models that are informed by advances in infrastructure design itself, and the valuable data it can generate.

Think of it as a "Moneyball" approach. By mining and leveraging player performance data, Oakland A's manager Billy Beane challenged conventional wisdom of scouts to outsmart richer clubs. A data-driven investment approach in undervalued players resulted in a top baseball team on a limited budget. Bear with me.

Tomorrow's smart, sensor-based infrastructure will be capable of providing new kinds of data and insights. The value of this information is increasingly starting to outstrip that of the physical infrastructure itself. Information is trumping function. Cities and towns can harness this to unlock new cash flows and equity value from improved operations or new derivative products and services.

In the U.S., public financing of infrastructure relies on 19th and 20th century models such as municipal bonds funded by tax-payers or project-specific revenue streams, revolving loans and grants. Municipal securities that cities and states issue for water, energy, industrial development and transportation projects — a diverse $3.8 trillion market — have evolved over two centuries. But they continue to rely on taxes and fees at a time when tax revenue is decreasing, public deficits are increasing and inequality is rising.

Public-private partnerships and outright private financing might sound like reasonable alternatives, but there are obstacles. Often, the investor seeks to own the asset, but regulations can constrain that. In addition, they raise ethical questions about inequality of access to a public good.

Clearly, these models are insufficient. To close the infrastructure finance gap, we need new ideas. So, how do we rebuild our bridges, roads and water systems without raising taxes?

The Moneyball approach starts with operational performance data from infrastructure systems: Sensors on bridges monitor structural health, which informs how much capital will be needed for operations and maintenance, and by when. Pressure sensors in water distribution pipes, along with smart meters in homes and businesses, capture leak and consumption patterns.

The measurements at stormwater outflows in lakes and rivers show water quantity and quality. Add to this data from remote sensing platforms such as NOAA satellites, Google Earth and private drones to obtain new insights about green spaces in cities, soil moisture, heat signatures of industrial plants, contaminant emissions in air and water and analytics that reveal structural deterioration.

By "twinning" infrastructure into digital assets, we can uncover informational inefficiencies that change how we value, price and invest in infrastructure.

Innovations like this inherently carry risk, but risk is often rewarded in the market. For example, variable interest rate bonds can be informed by sensor measurements and engineering models that underpin performance-based yields. They are already being used to finance green infrastructure for stormwater management. Yields are based on their impact on city flooding and water quality of discharges in rivers. Risk transfer mechanisms such as insurance and swaps have committed capital to make infrastructure more resilient and adaptive. Auctions of infrastructure-derived data to third-party service providers such as autonomous vehicle operators and electric vehicle charging systems are bringing in new cash flows.

The attractiveness of these financing instruments should not be underestimated. For investors, performance-based bonds or securities are uncorrelated to the market and can hedge volatility. For cities and towns, smart systems attract new types of financing that can bridge the funding gap, and may cost less up-front or reduce long-term maintenance costs. New designs such as smart green stormwater infrastructures could cost less than upgrading pipes and pumping stations. Flex lanes on freeways are cheaper than building additional lanes, and have similar performance.

For citizens, taxes may decrease, not only due to potentially lower lifetime cost of nimble systems, but also because the new data value streams shift cash flows towards the data markets.

Beyond all this, data-driven financing has the potential to become an equalizer. In traditional financing, wealthier communities can afford to raise taxes to pay off new bonds and maintain infrastructure. They also have higher credit ratings, so capital is cheaper. Low-income communities are left at a disadvantage. Smart financing instruments can open up cash flows that rely less on fees or taxes.

These new models often stir up privacy and cybersecurity concerns. It is important to note that structural health, performance and resiliency data tend to be operational, not personal. Bridge sensors are not collecting your date of birth or social security number. Regardless, cities such as London, Helsinki and Toronto are exploring new regulatory structures to protect privacy.

Our aging infrastructure needs attention now. Smart infrastructure systems and data-driven financing can plug financial needs, enable an e new tech job market, and bridge the political divide.

State treasurers and other public finance managers need to come together with infrastructure asset investors and efficient capital managers to move these innovations forward.

Let's learn to play Moneyball.

THE HILL

BY PETER ADRIAENS, OPINION CONTRIBUTOR — 07/01/19 08:00 AM EDT

Peter Adriaens is director of the University of Michigan Center for Smart Infrastructure Finance, and a professor of environmental engineering and finance.

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## Lawyers Pause Plan to Divide Any National Opioid Settlement.

CLEVELAND — State and local governments suing over the toll of a nationwide opioid crisis agree that companies in the drug industry should be held accountable, but they have differences on who should have the power to strike any settlement, and how it should work.

Those disputes had been mostly in the background until this week, when a majority of the nation's state attorneys general signed letters warning of problems with lawyers' plans for creating a mechanism to divide any settlement money among nearly 25,000 local and county governments — if a deal can be struck.

But at a hearing on Tuesday, any public feud was paused.

Lawyers for local governments, responding to those letters as well as objections from drug distributors and pharmacies and questions from local governments, asked if they could have two weeks to modify their plan.

Judge Dan Polster, who is overseeing lawsuits from nearly 2,000 municipal, county and tribal governments, agreed. After that, parties in the case and the state attorneys general will have time to respond to the reformulated plan. Polster scheduled a hearing on it for Aug. 6. At the hearing Tuesday, Polster called the matter "the most complex constellation of cases that have ever been filed."

Polster said he understands why city and county governments have filed their own lawsuits. "It's the legacy of the tobacco settlement," he said.

In the 1990s, states sued tobacco companies in cases with some parallels to the opioid cases. Local governments mostly stayed out of the litigation. In 1998, attorneys general worked out a settlement that by 2017 had paid states a total of $126 billion, according to the Public Health Law Center, with less than 1% of that amount going to anti-smoking programs. Other funds went to shore up state budgets and other causes.

But attorneys general say that giving local governments too much authority complicates the opioid litigation. So far, 48 states have filed some kind of legal action against at least one drug company and the other two — Michigan and Nebraska — have publicly said they're investigating.

Attorneys general for most states said Monday in a pair of letters to Polster that such an arrangement could hurt their ability to reach a national settlement.

One of the letters warned that the deal would give communities elsewhere “functional veto power” over any settlement a state reached. The attorneys general said that is not acceptable for states.

The Centers for the Disease Control and Prevention found opioids, including prescription drugs and illicit versions such as heroin and fentanyl, played a role in nearly 48,000 deaths in the U.S. in 2017 — making them the nation’s leading cause of accidental death.

The only case to go to trial over opioids is happening currently in Oklahoma, where the state is suing only Johnson & Johnson after two other drug companies — Purdue Pharma and Teva Pharmaceuticals — reached settlements with Oklahoma.

Polster has scheduled trials for October for lawsuits brought by Ohio’s Cuyahoga and Summit Counties.

In the meantime, the judge is pushing the parties and states to reach settlements.

**By The Associated Press**

June 25, 2019

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## With More Storms and Rising Seas, Which U.S. Cities Should Be Saved First?

WASHINGTON — As disaster costs keep rising nationwide, a troubling new debate has become urgent: If there’s not enough money to protect every coastal community from the effects of human-caused global warming, how should we decide which ones to save first?

After three years of brutal flooding and hurricanes in the United States, there is growing consensus among policymakers and scientists that coastal areas will require significant spending to ride out future storms and rising sea levels — not in decades, but now and in the very near future. There is also a growing realization that some communities, even sizable ones, will be left behind.

New research offers one way to look at the enormity of the cost as policymakers consider how to choose winners and losers in the race to adapt to climate change. By 2040, simply providing basic storm-surge protection in the form of sea walls for all coastal cities with more than 25,000 residents will require at least $42 billion, according to new estimates from the Center for Climate Integrity, an environmental advocacy group. Expanding the list to include communities smaller than 25,000 people would increase that cost to more than $400 billion.

Continue reading.

**The New York Times**

By Christopher Flavelle

June 19, 2019

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## Wells Fargo Parent is Dismissed from Lawsuit by Philadelphia, Baltimore.

NEW YORK (Reuters) – Wells Fargo & Co was dismissed as a defendant in a lawsuit brought by the cities of Philadelphia and Baltimore, which accused large banks of conspiring to inflate interest rates for variable-rate demand obligations (VRDO), a type of tax-exempt bond.

The dismissal came after Wells Fargo represented that it did not remarket, provide letters of credit for, or manage money market funds that invested in the bonds, according to a Tuesday filing in federal court in Manhattan.

Other Wells Fargo entities remain defendants. Goldman Sachs Group Inc and JPMorgan Chase & Co were previously dismissed from the case, though affiliates of those banks remain defendants, according to court records.

The remaining defendants include Bank of America Corp, Barclays Plc, Citigroup Inc, and Royal Bank of Canada, the records showed.

Philadelphia, which said it issued more than $1.6 billion of VRDOs, and Baltimore, which said it issued $261 million, stated that the collusion enabled banks to collect hundreds of millions of dollars in fees they did not earn.

The cities said this reduced critical funding for hospitals, power and water supplies, schools, transportation and other municipal services. Their proposed class action covers the period from February 2008 to June 2016.

The case is Philadelphia et al v Bank of America Corp et al, U.S. District Court, Southern District of New York, No. 19-01608.

Reporting by Jonathan Stempel in New York; Editing by Bernadette Baum and Jeffrey Benkoe

JUNE 18, 2019

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## [Municipal Bonds Are in Short Supply. Here's Where Investors Can Find Value.]

Once again, U.S. municipal-bond investors will be awash with cash this summer as bonds mature and get called. Strategists in UBS's wealth management division have suggestions for where investors can put that money.

Summer is normally the heaviest season for municipal-bond maturities and redemptions. This year should be no different, as $117 billion of bonds should mature in June, July and August—and that isn't counting the bonds that are called.

The supply of muni bonds isn't expected to keep up with the demand this year. While that should support prices in the market, it also makes it harder for investors to find good deals.

Continue reading.

**Barron's**

By Alexandra Scaggs

June 17, 2019 7:00 am ET

## [Supreme Court Sides With Property Owners in Local Land-Use Case.]

### *In 5-4 decision, high court eases property owners' ability to challenge local regulations in federal court*

WASHINGTON—The Supreme Court on Friday made it easier for property owners to challenge land-use regulations and seek compensation from the government, a ruling that revealed deep divisions between the court's conservative and liberal camps.

The court, in a 5-to-4 decision written by Chief Justice John Roberts, sided with a Pennsylvania woman who challenged a requirement by the rural community of Scott Township that she provide public access to a gravesite on her 90-acre property.

The chief justice, writing for the court's conservative majority, said landowner Rose Mary Knick could file a federal lawsuit that challenged a town ordinance on gravesite access and sought compensation for a "taking" of her property.

The decision overturned court precedent from 1985 that required property owners such as Ms. Knick to file litigation in state court first. Chief Justice Roberts said that requirement had proven to be "an unjustifiable burden" on property owners.

"Takings claims against local governments should be handled the same as other claims" for federal constitutional violations, the chief justice wrote in a 23-page opinion striking down the state-cour--first requirement.

The ruling is likely to give federal judges more oversight of local land-use regulations since property owners will no longer need to initially go to state courts. Property-rights advocates have viewed state courts as more sympathetic to municipal officials than to landowners.

The ruling "gives property owners an opportunity to forum-shop" for courts more sympathetic to their arguments, said Michael Blumm, a professor at Lewis & Clark Law School. He said federal courts may be more willing to curb state and local land-use regulations, particularly with the recent infusion of conservative Trump appointees, than state courts in California and other areas with strong environmental laws.

The court's newest justice, Brett Kavanaugh, appeared to provide the tiebreaking vote in Ms. Knick's favor. An eight-justice court first considered the case last October before Justice Kavanaugh was confirmed to his seat. The court later scheduled the case for re-argument in January, a move that suggested it needed its new member to break a deadlock.

Also joining the majority were Justices Clarence Thomas, Samuel Alito and Neil Gorsuch.

The court's four liberal justices dissented and, for the second time in recent weeks, chided their conservative colleagues for overturning precedent.

Justice Elena Kagan, writing for the dissenters, quoted Justice Stephen Breyer, who last month criticized the court for overruling precedent in a state-sovereignty case.

"Today's decision can only cause one to wonder which cases the court will overrule next," Justice Breyer wrote in the earlier dissent.

On Friday, Justice Kagan doubled down. "Well, that didn't take long," she wrote. "Now one may wonder yet again."

**The Wall Street Journal**

By Brent Kendall and Jess Bravin

Updated June 21, 2019 5:37 pm ET

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## Property Rights Claims Against Local Governments Gain Clearer Path to Federal Court.

**The U.S. Supreme Court on Friday overturned a precedent that has pushed many of the cases into state-level proceedings.**

Lawsuits alleging that local governments have unconstitutionally taken private property now have a more direct path to federal court, after a divided U.S. Supreme Court ruling on Friday scrapped a 34-year-old legal precedent.

The 5-4 ruling, with the court's conservative bloc in the majority, comes in Knick v. Township of Scott. Rose Knick challenged a local ordinance the Pennsylvania township enacted in 2012 requiring her to grant daytime public access to a small cemetery plot on her land.

The legality of the ordinance and how it was enforced was not at the center of the Supreme Court case. It instead focused on a legal precedent that the high court established in 1985 in *Williamson County Regional Planning Commission v. Hamilton Bank of Johnson City*.

Continue reading.

**Route Fifty**

By Bill Lucia,
Senior Reporter

June 21, 2019

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## Nonprofit Colleges, Universities Must Promptly Report 'Triggering' Events: McGuireWoods

Nonprofit higher education institutions now must report to the U.S. Department of Education the occurrence of certain "triggering" events that bear on the institution's financial strength within 10 days of the occurrence of the event.

These reporting requirements, part of the Obama-era borrower defense regulations that stalled under the Trump administration, have implications for any institution that participates in federal student aid programs. The regulations are designed to protect the Department of Education should it need to forgive student loans due to closure, fraud or misrepresentation by the institution.

The National Association of College and University Business Officers (NACUBO) released Advisory Guidance 18-05, which details the new regulations and triggering events and recommends certain steps business officers should take to ensure compliance with the new reporting requirements.

The borrower defense regulations set forth two categories of triggering events that will lead to the Department of Education re-evaluating an institution's financial standing: "automatic" and "discretionary" events.

Previously, the Department of Education evaluated a school's standing by reviewing the institution's audited financial statements, which schools provided within nine months of the end of the fiscal year. Now, the Department of Education will re-evaluate an institution's financial standing upon notice of a triggering event. An institution must provide such notice initially within 10 days of the occurrence of the event. Depending on the type of event, such as a lawsuit, an institution also may be required to provide follow-up notices.

Automatic triggering events are: (1) debts stemming from judicial or administrative proceedings or settlements, (2) borrower defense-related lawsuits, (3) other (not specified) litigation, (4) accrediting actions requiring a teach-out plan when closing (including closing a branch), and (5) gainful employment programs that could become ineligible for federal aid in the next award year.

Discretionary triggers are: (1) significant year-to-year fluctuation in the amount of Pell Grant or direct loan funds the institution receives, (2) citation by a state licensing agency for failing requirements, (3) failing a (to be developed) stress test, (4) high annual dropout rates, (5) accreditation issues, (6) financing document violations that allow a creditor to increase collateral, and (7) pending borrower relief claims or borrower defense lawsuits.

While the regulations do not provide detailed consequences for failing to report, they do provide the consequences for failing to meet required financial responsibility standards. These consequences include providing the Department of Education with a surety or letter of credit, and disclosing to students and prospective students the occurrence of a triggering event.

Business officers should coordinate with internal and external team members to put systems in place to ensure they are notified if a triggering event occurs. Such reporting systems will help promote compliance with the 10-day reporting requirement.

by Thomas William Bruno

June 20 2019

**McGuireWoods LLP**

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## Atlanta Environmental Impact Bond Breaks into Public Market.

IN BRIEF

- IN JANUARY 2019, ATLANTA CLOSED A $14 MILLION ENVIRONMENTAL IMPACT BOND (EIB) for stormwater management in the city's Proctor Creek watershed.
- ATLANTA'S BOND WAS OFFERED PUBLICLY, A FIRST FOR MUNICIPAL EIBS and an innovation its architects hope will help pave the way for EIBs to become a mainstream investment and financing tool.

- THE RESULTS FROM THE ATLANTA OFFERING COULD BE SEEN AS VALIDATION of market appetite for EIBs: the Atlanta bond was fully subscribed, mostly by mainstream institutional investors.

The city of Atlanta has new funds for green infrastructure. In January 2019, the city — in partnership with impact investing intermediary firm Quantified Ventures — closed a $14 million environmental impact bond (EIB) for stormwater management in the city's Proctor Creek watershed. The city plans to use the funds for green infrastructure projects that aim to control stormwater flow and improve water quality.

"Proctor Creek is an area that has repeatedly flooded, and as a result has caused a lot of problems with poor housing stock in that community," said Stephanie Stuckey, Atlanta's former chief resilience officer and current director of sustainability services at the Southface Institute. According to Stuckey, these issues have caused damage to housing as well as health problems, including a case of West Nile virus.

Atlanta's EIB follows in the path of the bond set up by DC Water in 2016, but carries an important distinction. The DC deal was privately placed and sold to Goldman Sachs and the Calvert Foundation; Atlanta's bond was offered publicly, an innovation its architects hope will help pave the way for EIBs to become a mainstream investment and financing tool.

**Funding Stormwater Management**

The Atlanta bond was the result of a partnership between Quantified Ventures, the Rockefeller Foundation, and broker-dealer Neighborly. Aiming to expand EIBs into public markets, the Rockefeller Foundation put out a grant to cover the costs of structuring a public bond; Atlanta's proposal was chosen among applicants from the 100 Resilient Cities network. The project will fund constructed wetlands, floodplain restoration, pervious pavers, and bioretention areas for stormwater runoff.

Proctor Creek passes through Atlanta's downtown, and the watershed includes some of the city's most economically distressed neighborhoods. According to Stuckey, it was chosen for the bond in part because it is the only major watershed to fall entirely within the Atlanta city limits, dodging the jurisdictional questions that could complicate a bond covering an area that spans multiple municipalities.

The watershed is ripe for intervention on stormwater management. "Proctor Creek has consistently been on the 303(d) impaired stream list with the state Environmental Protection department," Stuckey said. It's also a site of the Urban Waters Federal Partnership program operating in 19 cities, focused on urban, impaired, polluted streams in low-income communities.

Atlanta has faced issues in the past with combined sewer overflows. "We're under a [federal] consent order," said Stuckey, making the EIB a way to "control some of the flooding issues that we're legally obligated to address, in a manner that's not only more cost-efficient than some of the heavy gray infrastructure, but it's also more environmentally sensitive."

It's also a financing mechanism that looks to help expand the city's capacity to take on new projects. "Like most utilities, there's a limited number of projects we can deliver, given the funding that is available," said Mohamed Balla, deputy commissioner and CFO of Atlanta's Department of Watershed Management. Resource constraints have ended up "pushing green infrastructure projects to the back of the line perpetually," he said.

The bond has a ten-year term and two-tier structure, with an estimated base interest rate of 3.55%. At the end of the sixth year of the term, if the projects it funds have generated over 6.52 million gallons of new capacity for stormwater capture, investors will receive a performance payment totaling $1 million resulting in an estimated 4.67% effective interest rate. Quantified Ventures calculates a 28% probability of hitting the high-performance mark, which would result in an above-market net interest rate.

The city hopes more cost-effective green infrastructure can be passed as savings to taxpayers. Quantified Ventures estimates that the $14 million in financing will generate around $18 million in economic benefit, in the form of reduced flooding and better water quality. If the high-performance criteria are met, it would represent an additional $1.8 million of value. The bond has been rated Aa3 by Moody's and A+ by S&P.

The two-tier set-up is also a departure from the DC model, which — in addition to base and high-performance rates — includes a provision that allows the city to recoup some of the EIB's proceeds from investors if the project underperforms. Atlanta's simplified tiers — just base rate and upside — are an alteration important for the bond's public structure.

Holders of a public bond may also resell it to other parties during the course of its term. For that reason, "it gets more complicated if you do a three-tier structure because once it's in the secondary market, it's more challenging to do that clawback in the case of underperformance," said Andrea Barrios, innovative finance analyst at the Rockefeller Foundation.

**From Private to Public**

If it's successful, the Atlanta bond could prove to be the next step in an ongoing evolution of EIBs as a tool for financing environmental and conservation projects. Private bonds, like the DC Water EIB, are sold to specific prearranged investors. In contrast, public bonds are offered on an open market — the Atlanta EIB was sold on Neighborly's online platform.

The Atlanta deal may help to build broader acceptance of the model pioneered by DC's EIB. Despite the potential represented by the DC deal, other cities were reluctant to follow suit, according to Barrios.

"DC Water was viewed as a highly sophisticated and resource-rich entity," she said. "Even the base interest rate that they used in their model was higher than [other] municipalities would use, and it scared away some of the smaller ones."

In addition, privately placed EIBs face limitations that may be inherent to their structure. They exist in "what often ends up being an overly engineered private investment world, which gets even more complex in the impact space," said Margot Kane, former senior advisor at Quantified Ventures. "There's another layer of requirements that have to do with social and environmental outcomes."

Private structures can also give outsized influence to single anchor investors and increase transaction costs, according to Kane. In contrast, Barrios hopes that the Atlanta deal will show that EIBs are a tool available to a wide variety of municipalities across the country. Its public offering was key to demonstrating proof of concept.

"It was really tested in the market," Barrios said. That is, Atlanta's bond posed an unanswered question: how would a municipal EIB sell without prearranged buyers? Moreover, only qualified investment buyers could purchase the bond, in increments no smaller than $100,000. This threshold priced out many smaller impact investing outfits that may have had a special affinity for an EIB, according to Barrios, testing the EIB with a segment of the market that less typically purchases them.

"When you talk about municipal debt as an asset class, a lot of people tend to be risk-averse and don't want to put their money into the new flashy innovative thing, they want to put their money into something that's tried-and-true," said Benjamin Cohen, director at Quantified Ventures.

Traditionally, EIBs have been "very boutique, very niche, principal-exposed," with philanthropic investors and complex evaluation structures, Cohen said. "As a company, we're trying to take that model from something that is pretty entrenched in academia and philanthropy and is pretty boutique and trying to turn it into a financial vehicle that can be recognized and adopted by the broader capital market," he said.

The results from the Atlanta offering could be seen as validation of market appetite for EIBs: the Atlanta bond was fully subscribed, mostly by mainstream institutional investors, according to Cohen.

**Replication**

"Now that we have the Atlanta EIB in the public bond markets, our hope is that now there's one of these," Cohen said, "we hope to see more interest and more appetite from investors."

A further innovation that future bonds could aim for: one initial idea for the Atlanta bond was to make it available for retail sales, allowing any Atlanta resident to invest in their city's green infrastructure if they wished. This proved too challenging to implement, but could form a part of similar deals in the future, according to Cohen.

Broader acceptance of EIBs as tools available to municipalities would, of course, mean more municipalities using them. To continue to push the process forward, Rockefeller and Quantified Ventures are also supporting the city of Camden, New Jersey in developing an EIB to build a mini-grid for public buildings. Perhaps that will pave the way for cities to begin pursuing EIBs of their own accord.

"We'd love for the municipalities to take this on their own. It takes time for these bonds to be replicated, because people wait for the first, the second, the third, the fifth, the sixth," Barrios said. "What would be incredible is if you catalyze this across the entire country, or even internationally."

**Conservation Finance Network**

by Chris Lewis

June 24, 2019

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## Supply Constraints Help Municipal Bond ETFs.

Municipal bonds and related muni bond exchange traded funds are benefiting as U.S. states and cities cut back on new issues. For example, the VanEck Vectors AMT-Free Intermediate Municipal Index ETF (CBOE: ITM) is up nearly 5% this year.

Municipal debt and bond-related exchange traded funds have been used as a relatively stable fixed-income stream for many investment portfolios. Due to the 2017 changes in the tax code, some states are seeing soaring municipal bond valuations.

"While the 2017 Tax Cuts and Jobs Act penalized taxpayers in blue states, it helped their state governments' financing costs," reports Alexandra Scaggs for Barron's. "Blue state bond valuations have soared since the tax law's 2018 implementation. One reason: the tax law's limit on state and local tax deductions, which pushed investors in those high-tax states into the muni market in search of more tax-exempt income."

The $1.8 billion ITM allocates over 30% of its combined weight to bonds issued by California and New York with Illinois representing another 4.5%, according to issuer data.

**Voracious Municipal Debt Appetite**

Investors are displaying big appetites for municipal debt, but some states are having difficulty bringing sufficient supply to market.

"So far this year, investors have bought muni funds at a pace exceeded only during the financial crisis in 2009, according to Lipper data going back to 1992," according to Barron's. "There's a problem, however: State and local governments haven't been able to borrow enough to meet investors' appetite."

Since muni bond interest is exempt from federal taxes, muni ETFs are a good way for investors seeking tax-exempt income, especially those in higher tax brackets. Due to its tax-exempt status, the asset category is also best utilized in taxable accounts.

ITM has a 30-day SEC yield of 1.73%. The fund, which holds more than 2,800 bonds, has an effective duration of 6.43 years and a yield to worst of 1.95%. About 94% of ITM's holdings are rated AAA, AA or A.

"The muni market is now smaller than it was a decade ago, according to data from the Securities Industry and Financial Markets Association, or Sifma," reports Barron's. "There were $3.6 trillion of munis outstanding at the end of the first quarter, down from nearly $4 trillion in 2009. That's partly because the tax bill removed the tax exemption on bonds sold in so-called advance refundings, a popular method of refinancing muni debt."

ETF TRENDS

by TODD SHRIBER

JUNE 24, 2019

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## Why Insured Municipal Bonds Make Sense Today.

**Role of Insurance**

Municipal bond insurance is a guarantee from a monoline insurance company that the holder of a muni bond will receive scheduled interest and principal payments when due, even in the event of a default by its issuer. Municipal bond insurance is often described as a credit enhancement as it enables a municipality to effectively borrow the credit rating of the insurer, which is typically higher than its own on the rating scale. This credit enhancement can help to reduce the borrowing costs of the issuer.

The history of municipal bond insurance can be traced back to 1971 with the founding of Ambac, the industry's first monoline insurer. The industry gained traction in the mid-1980s after the Washington Public Power Supply System defaulted on $2.25 billion in revenue bonds and by 2005, insured bonds made up 57% of total municipal bond issuance and were guaranteed by nine firms, seven of which carried AAA ratings. Meanwhile, in the early to mid-2000s, the insurers diversified their businesses by insuring structured debt settlements that were backed by risky subprime mortgages.

When the subprime mortgage crisis took hold in 2007-2008 and severely impacted the structured debt market, most of the monoline insurers either fell into bankruptcy and folded or lost their AAA ratings. Today, Assured Guaranty and Build America Mutual are the only two firms writing new business and they were most recently rated AA. The market share of new municipal issues carrying insurance dropped steeply and has hovered around 5-6% since 2014.

Continue reading.

Written by: Eric Snyder; Maria Rahni, CFA

June 17, 2019

**IndexIQ**

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## [May Stock Swoon, Munis Rally: An Update On Why Muni CEFs Are In Your Portfolio]

**Summary**


- Munis have been one of the best-performing asset classes this year while providing that downside protection that we expect from one of the safest asset classes.
- Portfolio construction is very important to us, so understanding the risks of each position and how it relates to the portfolio as a whole is extremely critical.
- Our analysis goes well beyond looking for negative z-scores or the highest yielding funds which most retail investors in the space use as deciding factors.
- We have a muni-only Core Income Portfolio that shows our Top Conviction funds – those that have the characteristics mentioned in this report that are most favorable.


Continue reading.

**Seeking Alpha**

Jun. 21, 2019 8:00 AM ET

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## [Municipal Bonds Are in High Demand and Short Supply. Where Investors Should Look.]

Everything is pricey in the San Francisco Bay area—even municipal bonds.

High prices are a good thing if you're a seller, like Sophia Skoda. She was in New York to help oversee a $162 million green bond sale by East Bay Municipal Utility District, the public water utility that employs her as its finance director. As underwriters at JPMorgan Chase tallied up the orders, they joked about increasing the offering size. Investors put in orders for 5.5 times the amount of the bonds on offer; for any corporate borrower, that would be a sign to borrow more.

But like most municipal borrowers, East Bay MUD isn't that flexible. The utility, which has been borrowing since 1923, plans debt sales years ahead of time. "We definitely benefited from the lack of paper in the California market right now," Skoda said. "We're very, very, very happy."

The two-year bonds were sold with a yield of 1.03%, below the AAA-rated muni benchmark yield of 1.31%. In theory, East Bay MUD's yields should be higher than the benchmark, since it's rated one notch below AAA.

[Continue reading.](#)

**Barron's**

By Alexandra Scaggs

June 21, 2019 5:32 pm ET

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## [Billions at Stake in Opioid Suits, But It's No Tobacco Windfall.](#)

- **Compensation won't match 1998 tobacco settlement: Fitch**
- **Oklahoma seeking at least $10 billion in damages from J&J**

An Oklahoma case, the first of more than 1,600 lawsuits filed by U.S. state and local governments against opioid makers to go to trial, could serve as a key benchmark for governments hoping to recoup costs associated with the public health crisis.

However, verdicts and legal settlements resulting from the litigation are likely to be smaller than the 1998 global settlement with tobacco companies and won't significantly affect government budgets, according to Fitch Ratings.

The tobacco settlement with 46 states compensated them with more than $200 billion for decades of tobacco-related health-care costs, but wasn't enough to alter state and local government credit quality, according to Fitch. The opioid epidemic has taken place over a shorter time span, and hasn't resulted in as many deaths, according to Marcy Block, a Fitch analyst.

"It's severe, but it's less if you think about the amount of deaths through tobacco usage," Block said.

**Ten Times**

More than 47,000 Americans died from opioid overdoses in 2017, including heroin and fentanyl, a synthetic opioid, according to the National Institute on Drug Abuse. Cigarette smoking is responsible for ten times as many deaths annually, according to the Centers for Disease Control and Prevention.

Oklahoma sued Johnson & Johnson, Purdue Pharma LP and Teva Pharmaceutical Industries Ltd. in 2017, alleging the companies deceived the public by overstating the benefits of their drugs while downplaying the risk of addiction. Teva in May agreed to pay $85 million to resolve the suit. Purdue

Pharma, the maker of OxyContin, agreed in March to pay $270 million.

Read more about how opioid makers are getting squeezed as cities try to form a negotiating group

The opioid litigation could cost the pharmaceutical industry between $5 billion and $50 billion, based on the 1998 tobacco deal and costs of the abuse epidemic, according to Bloomberg Intelligence analyst Holly Froum. Oklahoma is seeking at least $10 billion in damages and penalties for current and future outlays from Johnson & Johnson.

“The depth of evidence against the opioid manufacturers, including any potential evidence of fraudulent marketing, will be a key determinant not only of how this case is decided, but the thousands of additional cases against the industry, “ wrote Rachel Barkley, a senior vice president at Loop Capital Markets earlier this month.

“Additionally, the size of any settlement would likely serve as a benchmark in future cases,” she said.

**Securtitized Proceeds**

States and local governments issued tens of billions of dollars in muni bonds backed by the tobacco settlement and some used that money to plug budget gaps. The securities are repaid with the money they receive each year from cigarette companies under the settlement. The amount of the payments is based on annual cigarette shipments. There are currently $85 billion of tobacco bonds outstanding, including debt issued to refinance previously issued securities.

At least 42 states and more than 1,900 municipalities have sued opioid manufactures and distributors, blaming them for creating a national public-health crisis and demanding billions of dollars in damages.

A U.S. federal judge in Cleveland is overseeing opioid litigation brought by U.S. cities and counties and has set two trials for October. The scope of the litigation could result in a global settlement that mimics the resolution to the tobacco cases in the 1990s.

The CDC estimates that the total “economic burden” of prescription opioid misuse alone in the U.S. is $78.5 billion a year, including the costs of health care, lost productivity, addiction treatment and criminal justice involvement.

Factoring the economic value of lives lost, the White House’s Council of Economic Advisers estimated the costs of the epidemic in 2015 totaled $504 billion.

**Bloomberg Business**

By Martin Z Braun

June 19, 2019, 10:30 AM PDT

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## [Late State Budgets Are Less Common This Year. There's 2 Big Reasons for That.]

**Still, a few states may miss the July deadline, leading to a government shutdown in some.**

SPEED READ:

- More states have passed or are close to passing a budget compared to this time two years ago.
- The rise of one-party states and of state revenues has eased the budget process.
  Some states may pass their budgets late, including New Jersey and Pennsylvania.

With less than two weeks before the new fiscal year starts for most states, there has been relatively little of the last-minute drama that's dominated budget debates in recent years.

As of Tuesday, 39 states had either passed a budget or had one awaiting a governor's signature, according to the National Conference of State Legislatures. That's a far cry from 2017 when 11 states started the fiscal year without a signed budget and another 10 had to call a special session to approve one after missing the initial deadline.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 19, 2019 AT 4:00 AM

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## A Common Economic Language for Development.

**Transportation and land-use agencies often don't work with the same data as economic development offices. A new tool aims to bridge that gap.**

Planning and development director of Metro, the regional government of greater Portland, Ore.
In an age of data and disruption, cities and regions need modern tools to visualize how their economies operate across their landscapes. That reality was made quite clear during the recent Amazon HQ2 sweepstakes, in which the company defined a region's competiveness not just by its traditional economic assets, such as tech talent, but also by how well transit connectivity and neighborhood livability created a platform for long-run economic growth.

The problem is that most transportation and land-use agencies struggle to frame their decisions through an economic lens. The de facto standard is that those agencies measure such items as travel volumes and acres of developable land, while leaving questions such as where income inequality may be growing or where high-tech firms have begun to cluster to economic development offices. This narrow approach creates a major weakness: If transportation and land-use staff don't have a way to translate economic values into their operational DNA, how can we ever expect to build the kind of places we all want to live in?

One way to bridge this data gap is to build new tools that create a common language. Call it a Rosetta Stone between economic development professionals and their peers in land use and infrastructure.

Over the past 18 months, the Brookings Institution's Metropolitan Policy Program and Metro, the regional government and planning organization serving greater Portland, Ore., set out to build such a translational tool. The result is the country's first Economic Value Atlas (EVA), which uses mapping technology to simultaneously evaluate economic, social and land-use conditions at the neighborhood scale and relate them to metropolitan trends. It's a solution that could scale to any metropolitan area.

It's not hard to see how land-use and transportation decisions impact economic competiveness.

Domestic and global trade connections are essential to allow industries to grow. Commuting choices and local walkability help attract new talent to a region. A range of housing types is essential to hedge against displacement and discrimination. Sustainable urban design better positions a region to withstand threats from climate change. And history tells us that getting these decisions wrong can have detrimental effects, from promoting decay in the urban core to spatial mismatch on the periphery.

Not only are our policy frameworks not designed for that kind of multidisciplinary thinking, but they also fail to leverage impressive new data capabilities. The country has never had a better feel for how metropolitan economic performance [compares across places](). Economic data at the neighborhood scale is also richer than ever, whether through federal sources such as the Census Bureau or private providers such as real-estate firms.

By providing a common mapping platform that is available to the public and can make calculations in seconds, the EVA creates a common economic language to inform local conversations. And we're just now beginning to see what's possible.

For example, the EVA can manage questions around the rise of e-commerce and where to put all those new warehouses. By stacking three critical variables at once — freight market connectivity, labor access and developable industrial land — the EVA map of Portland revealed hotspots especially attuned to warehousing's needs. What amazed us is that the EVA pinpointed the exact neighborhood where Amazon ended up building its Portland facility: a logistics- and land-rich area with easy access for entry-level workers.

Or let's consider gentrification, which is a major issue in Portland's central-city neighborhoods. We decided to stack five variables: rental housing affordability, housing construction, walkability, median income growth and high non-white populations. Not only did the map reveal where gentrification may have already occurred but it also revealed diverse, livable places that, due to housing construction and rising incomes, could soon price certain groups out.

These maps are intriguing, but what's most exciting is how the tool's outputs can impact local decision-making. Consider, for example, the [landmark affordable-housing bond measure]() approved by the Portland region's voters last year. A tool like the EVA can help Metro target funding by geographies, populations and community needs. Similarly, as the region evaluates where a future transportation funding measure should invest its precious capital, the EVA can help policymakers better understand and communicate which investments provide which benefits. That kind of economic accountability can help build public trust.

We can no longer afford the outdated model of making decisions in silos and behind closed doors. Fortunately, we have new data and planning capabilities to meet not only today's challenges but also those of the coming decades. Tools like the EVA are just the beginning.

**governing.com**

By Adie Tomer & Elissa Gertler

JUNE 19, 2019 AT 4:00 AM

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## [Road to Success is Being Paved with Public-Private Partnerships.]()

Ground was broken this month on an anxiously awaited highway project outside of Washington, D.C., one of the latest examples of the public and private sector acting as partners to advance critical state and local infrastructure projects.

The June 6 launch of the Fredericksburg Extension Project – a 10-mile extension of express toll lanes on the Interstate 95 corridor in Northern Virginia nicknamed the "FredEx" – featured the leadership of a public-private partnership (P3) that will get the $565 million job done by the end of 2022. The state's governor and its transportation secretary launched the project as the public side of the P3, and executives from toll-road operator Transurban would be the private side of the partnership.

"Not only will this project reduce congestion and provide important corridor improvements, but as a result of this joint commitment from our public and private sector partners, this project is also estimated to create 9,100 jobs and generate $1.1 billion in economic activity for this fast-growing region," Gov. Ralph Northam said during the ceremony, summing up the basic premise of P3s, which are increasingly being formed to push through road projects designed to ease traffic congestion in the high-growth areas where new jobs and taxpayers are clustering.

Transurban's role in the project is to ride to the rescue of cash-strapped states and other governments by financing increasingly costly and urgently needed traffic projects in exchange for operational control and the ability to collect tolls from thousands of annoyed drivers every day. The Australia-based corporation has toll roads around the world and said in its most-recent annual report that its toll revenues had increased 8 percent to more than $2.2 billion for the year.

And the FredEx is not the last the Beltway region is going to see of Transurban. The company earlier this year announced its official handshake with Virginia on another P3, the 495 Extension Project, which will add about two miles of express lanes toward the Maryland state line and will include what the state's news release termed "an extension of current dynamic tolling and traffic-management systems," and also "an investment of approximately US$1 billion by Transurban in the Greater Washington area for these projects."

A toll road is considered the classic model of a P3 because it features a visible revenue stream that will pay the private partner back for their initial investment without tapping into public funds. Tolls, however, may not be appropriate for a road that doesn't have enough daily traffic. In fact, new highway construction is not necessarily the crux of the ongoing U.S. infrastructure crisis. A greater issue is maintenance of existing highways, local streets, bridges, and ramps.

Washington and many state governments have come around in seeing the P3 model as a not only convenient means of financing, but also in many cases, the only option. There is no official tally of P3 projects underway in the United States, but it is growing into the preferred method of financing highway improvements and other daunting infrastructure projects.

A 2018 report issued by the economic consulting firm The Brattle Group noted that the 2008 recession knocked many state and local governments back on their financial heels, which led to a surge in deferred maintenance that only caused roads and bridges to deteriorate further, which adds greatly to the cost of the eventual repairs. In addition, it is not permitted to use federal highway funds to pay for routine or even preventable maintenance. The third head of this highway hydra was a clause in the Trump administration's tax-reform bill that hamstrung the ability of local governments to refinance their highway bonds at lower rates, a practice known as advanced refunding that is similar to refinancing a home loan.

Brattle said the situation has left local governments with little choice besides joining up with the private sector in a joint effort to fix up roads and bridges that won't necessarily generate enough toll revenue to pay the tab. "Although the stereotypical P3 is a toll road, P3s need not involve user fees," Brattle report said. "They can be funded instead with government revenue, just like a conventionally procured, municipal bond financed project."

That funding is basically a contracted payment schedule in which the private-sector partner bankrolls construction and is also responsible for the maintenance and upkeep in exchange for a regular payment by the public side of the P3. For example, Pennsylvania's Rapid Bridge Replacement P3 teamed the state up with a private consortium of investment and construction firms to replace a whopping 558 bridges located along rural roads throughout the state. The $899 million project will have the consortium design, build, and finance the new pre-fabricated bridges in exchange for a 28-year payment schedule from the state.

The Southern Ohio Veterans Memorial Highway in the Appalachian region of southern Ohio was built toll-free by the Portsmouth Gateway Group, which will be paid by the state to maintain the 16-mile project for the next 35 years. A similar team led by the international heavyweight Fluor Corp. was selected in May to design and build the I-635 LBJ East Project in Dallas, which includes widening 11 miles of the highway connecting Dallas with neighboring Fort Worth and then collecting maintenance fees from the state.

Proponents of P3s say the concept's ability to unleash the private sector helps speed up road construction while keeping costs down.

But Brattle's report cautioned: "Projects that enter P3 procurement must be carefully selected and contracted with a payment mechanism that allocates risks appropriately for the project and the procuring government's needs. Avoiding financial failures and political backlash will be essential to encouraging state and local governments to bring more projects for P3 procurement."

TRANSPORTATION TODAY

BY HIL ANDERSON | JUNE 17, 2019

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## Can P3s Jumpstart Smart Cities?

**While the intricacies of public-private partnerships can be tough to navigate, they have been successful in helping cities build the kind of digital infrastructure that's necessary for today's urban economy and society.**

Reinventing a city is a challenge and a feat of such immense proportion that it can rival building a new city from the ground up. It requires no less than rethinking and rearchitecting everything that worked decades or centuries ago, for both present and future needs.

That's why public-private partnerships, or P3s, are enjoying a renaissance. They provide a real, practical solution to cities' most pressing problems. P3s are nothing new: Two of the most successful and most celebrated developments in U.S. history — the Erie Canal and the Transcontinental Railroad — date back to pioneering P3s of the 19th century. In one assessment, the Erie Canal was said to provide "a model of public-private partnerships that endure to this day."

Today's model for P3s is much the same as it was back then, but now is the engine behind the development and emergence of smart cities. At its heart, it's a simple alliance between government and private entities to achieve a common purpose, and a purpose that neither entity could be expected to achieve alone. In fact, P3s are being tested for their resilience as cities address their toughest challenges.

Continue reading.

GOVTECH.COM

BY ITAI DADON, DAN PFEIFFER / JUNE 17, 2019

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## National P3 Update: Water and Sewer Infrastructure

We recently provided an update on the status of higher-education and social-infrastructure projects being delivered under the P3 model. This update focuses on water and sewer projects—although water and sewer infrastructure is rarely given much attention, its proper operation is obviously critical to our well being. Unfortunately, many of our nation's water and sewer systems are the victims of deferred maintenance (a problem that P3s can address), and the current situation is dire. As discussed at last week's USP3 conference in New York, public water systems in the United States require $335 billion in upgrades over the next 20 years, and the public sewer systems require another $298 billion in upgrades. Fortunately, several jurisdictions are considering P3s to address these needed projects. Water-and-sewer P3s currently in the procurement pipeline include:

Miami-Dade County, Florida, Biosolids Processing Facility
The biosolids facility remains in the County's P3 pipeline. An RFQ has not yet been issued. Estimated construction costs are approximately $140 million.

Ascension Parish, Louisiana, Consolidated Sewer System
Ascension Parish selected a preferred proponent last month for the development of a new regional sewer system under a 30-year DBFOM P3 agreement. Estimated construction costs for the first phase of the system are $225 million. The preferred proponent is led by Bernhard Capital Partners.

Lake Oswego, Oregon, Wastewater Treatment Plant
Lake Oswego shortlisted three teams last month for this project with an estimated construction cost of $130 million. The shortlisted proponents are EPCOR Foothills Water Partners, Foothills Water LLC, and NW Natural Holding Company.

Edison, New Jersey, Water and Sewer Concession
The Township of Edison has negotiated a 40-year concession agreement, which includes $481 million in infrastructure improvements, with Edison Environmental Partners, which is led by KKR Global Infrastructure Investors and Suez. The agreement is pending approval by the Township.

Fargo-Moorhead, North Dakota, Diversion Project
After a delay due to litigation, the Fargo-Moorhead Flood Diversion Authority is going to move forward with the procurement for this $2.75 billion project this summer. The shortlisted teams are Lake Agassiz Partners (AECOM, Meridiam, and Walsh), Red River Valley Partners (Plenary, Fluor, Ames, and Bernard), and Red River Valley Alliance (Acciona, InfraRed, Shikun & Binui, and North American Construction Group).

June 19, 2019

**Bilzin Sumberg**

## [It's Been a Rough Year for Mass Transit.]

**With falling ridership and scrapped expansion projects, urban transit faces an uncertain future.**

Writing in this space last June, I made a confident prediction about the trajectory of urbanism in two Southern cities. Nashville had just decisively rejected a $5 billion plan aimed at remaking its entire transportation system, one that would have added enough new light rail lines and bus routes to change metro Nashville from a car-dependent mishmash of sprawl into a 21st-century metropolis where many people would find cars unnecessary.

Meanwhile, metro Atlanta was making plans to try something similar, with its big suburban counties preparing to vote to extend rail service to those hugely populous but transit-deprived population centers. The implication was obvious. Atlanta’s suburbs, after casting decades of anti-transit votes, were ready for change. Nashville was lagging years, if not decades, behind.

I got it wrong. This spring, voters in Gwinnett County, the nearly 1-million-resident behemoth thought to be central to the entire Atlanta project, turned down transit expansion and the extra sales tax it would have required. So much for the region’s 21st-century turn toward urbanism. It wasn’t that different from Nashville after all.

It’s still possible that Gwinnett will reverse itself, or that the other metro counties will tilt the other way and keep the transit vision intact. But at this point, I doubt it.

This spring was a really bad time for transit activists and advocates almost everywhere. In April, the board of directors of the Regional Transit Commission of Southern Nevada rejected a light rail project that appeared to have public support. That was a few weeks after the city council in Phoenix, a beacon of transit success in the past few years, voted against a major expansion out into the western desert suburbs. In August, a popular referendum will decide whether the system needs to have any real expansion at all. At this point, it’s looking like the anti-transit side could prevail.

In what may be the most discouraging decision of all, transit promoters in Durham, N.C., had to pull the plug, after nearly a decade of planning, on a transit project that would have run through Durham and adjoining Orange County. Duke University, a major sponsor, abruptly pulled its money out, invoking safety concerns.

But it’s not just this bad project news that’s turned 2019 into a season of national transit anxiety. It’s the overall ridership numbers coming in from practically every part of the country. Data for the first three quarters of 2018 shows that total U.S. transit ridership was down 2.36 percent over those nine months. Heavy rail was down 2.86 percent; light rail, 3.97 percent. Bus trips were down 2.32 percent. The only category that came in higher was commuter rail.

The numbers from Los Angeles are perhaps the most alarming. Through the first three quarters of 2018, L.A.’s heavy rail subway lost 4.45 percent of its riders; the light rail system lost an even worse 5.21 percent — in a region that has perhaps staked more of its future on transit than any growing metro in the United States.

There are some intriguing anomalies in this largely bleak picture. The places in the South and the West that had seemed to be most bullish about transit expansion over the past decade — L.A., Phoenix, the North Carolina Research Triangle, and even Dallas and Las Vegas — have seen their prospects decline. But at the same time, and without much national attention, older cities with legacy transit systems long plagued by physical decay and poor maintenance have begun sprucing them up in hopes of generating a revival.

In the current decade, for example, Chicago has rebuilt more than a third of its subway and elevated tracks and redone 40 aging stations, at a cost of $7.2 billion. Boston, after a decade of haggling over the future of its Green Line, is hard at work spending more than $2 billion on a 4.7-mile extension and the rebuilding of 67 stations. Philadelphia's SEPTA has been spending $750 million a year since 2011 on a comprehensive modernization process. These cities know how bad the national ridership numbers look. They are gambling that all this expense and effort will make a difference. And Philadelphia's heavy rail system did post a gain in the second half of 2018.

Then, of course, there is New York. In March, the state legislature agreed to let the city begin imposing a congestion tax that could reach $15 on private vehicles that enter Manhattan below 60th Street during peak travel hours. Part of the rationale, obviously, is to reduce automobile congestion. But an equally crucial component is the money that congestion pricing will deliver to the debt-ridden Metropolitan Transit Authority — as much as a billion dollars a year, in addition to $15 billion in revenue projected to come in through new bonding authority.

So just as the Phoenixes of America are losing interest in building their modern lives on the pedestal of transit, the cities with creaky trains and rusty platforms are chasing the state of the art as a way to keep themselves healthy. There is a disconnect here, though. When it comes to transit, renewal and ridership are two very different things. The money that allows older cities to rebuild tracks and debut shiny new trains doesn't guarantee that people are going to come back and ride them. To complete that difficult transformation, cities will need to do a better job of figuring out just what has driven the riders away in the first place.

There isn't one answer. Transit's troubles stem from a whole complex of factors. But it's worth looking at them one by one.

The explanation behind falling transit numbers that gets tossed out most frequently is the rise of ride-hailing. People who used to commute to work by train or bus are taking Uber or Lyft instead. Obviously, that's a contributing factor to ridership declines. But it's happening mostly in a few big cities, and the ones with the biggest Uber and Lyft penetration are not necessarily the ones with the biggest transit declines. Besides, the cost of an Uber ride from a suburb into the city — $25 or more at peak hours in a crowded metropolis — suggests a ceiling on just how ubiquitous ride-sharing is actually going to be.

Telecommuting is another commonly suggested culprit, and there may be more to this one. The number of pure telecommuters is still relatively small — the latest data show that only about 3 percent of employees work from home most of the time. But the number of one-day-a-week telecommuters is huge and growing very fast. Taking transit to work four days a week instead of five represents a 20 percent falloff in ridership. So this obviously matters.

What may matter more, however, is the price of gas and the rising level of car ownership. In the summer of 2008, a gallon of gas sold in much of the United States for more than $4; in the summer of 2018, the price was down below $2.75. A decade ago, I thought the effect of declining gas prices wouldn't be that elastic: Once people started

driving less to save money, they'd keep doing that. But they haven't. A spike in gas prices still cuts our driving significantly; a plunge in those prices puts millions of people back on the road quickly.

Just as important, there's evidence that once the 2008 recession ended, Americans started buying more cars. A study last year by researchers at the University of California, Los Angeles, found that in the years from 2000 to 2015, but especially from 2010 to 2015, the number of household vehicles in metropolitan L.A. grew by 2.1 million — a higher rate than in previous decades. Most interesting of all: The growth was greatest among immigrant families.

When you think about it, you can see the reason for that. Immigrants, and poorer families in general, have been settling in less expensive inner suburbs rather than in the central cities where they used to cluster. As they do that, they move farther from the transit lines — especially bus lines — that carried them to work. They buy cars, and their bus-riding numbers go down. As the transportation scholar Yonah Freemark told me recently, "Poorer people are living in increasingly transit-hostile environments."

One might expect this trend to be counteracted by the number of single millennials who have chosen to live near city centers and aren't buying cars at all. That may be happening to an extent. But many of those millennials are settling so close to their jobs that they don't need transportation of any sort — except for their feet and maybe a scooter or bicycle. As Freemark puts it, "They are not a natural transit constituency."

None of this is to suggest that big-city transit systems are on the brink of imminent collapse. They remain indispensable civic institutions, and the older ones are doing exactly the right thing by restoring their capital investment, their level of service, their reliability and their reputations. In the long run, though, they need to worry about one other important thing: finding ways to get their service out to where their riders have gone.

GOVERNING.COM

By Alan Ehrenhalt | Senior Editor

JUNE 2019

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## GASB Proposes Guidance on Public-Private and Public-Public Partnership Arrangements.

**Norwalk, CT, June 13, 2019** — The Governmental Accounting Standards Board (GASB) has proposed new guidance to improve accounting and financial reporting for public-private and public-public partnership arrangements (both referred to as PPPs) and availability payment arrangements (APAs).

The Exposure Draft, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, provides proposed guidance for PPP arrangements that are outside of the scope of its existing literature for these transactions, namely Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, and Statement No. 87, Leases. The proposed Statement also would make certain improvements to the guidance currently included in Statement 60 and provide accounting and financial reporting guidance for APAs.

**PPPs**

The proposal defines a PPP as an arrangement in which a government transferor contracts with a governmental or nongovernmental operator to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset—the underlying PPP asset—for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA). The proposed Statement includes the following definition of an SCA:

- The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of the underlying PPP asset
- The operator collects and is compensated by fees from third parties
- The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services, and
- The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

The proposed Statement carries forward the financial reporting requirements for SCAs that currently are included in Statement 60. For PPPs that meet the definition of a lease, but not the definition of an SCA, the proposed Statement would require governments to apply the requirements of Statement 87. For all other PPPs that are not SCAs and are not leases, the proposed Statement generally would require a transferor to recognize an asset for the underlying PPP asset and a deferred inflow of resources for consideration received or to be received as part of the PPP.

The proposed Statement would require a governmental operator to report an intangible right-to-use asset related to the underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA.

**APAs**

Under the proposal, an APA would be defined as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The proposed Statement would require governments to account for APAs related to those activities and in which ownership of the asset transfers by the end of the contract as a financed purchase of the underlying infrastructure or other nonfinancial asset.

A government would be required to report an APA that is related to operating or maintaining an infrastructure or other nonfinancial asset as an outflow of resources in the period to which payments relate.

The proposed Statement would be effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Earlier application would be encouraged.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders to review the proposal and provide comments by September 13, 2019.

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## ‘Smart’ Technology Could Change the Future of City Finances.

***For one thing, the technology may save enough money so that city projects will be able to pay for themselves***

Cities and transit systems across the U.S. have borrowed hundreds of millions of dollars in recent years to finance investments in systems that produce streams of data on traffic, trains, ports, streetlights and more.

But future city projects with new technologies that generate real-time data may change how cities finance such projects.

Citigroup Inc., C 0.60% which advises cities on municipal fundraising and provides a bevy of other banking services to governments, has been working with a handful of cities and experts to study the outcomes of "smart" investments, in part to gauge how they change a municipality's financial picture. Such studies may help inform continuing debates about how cities can harness new technology while also managing the costs and privacy concerns that often accompany it.

Proponents say that if the benefits from new technologies prove substantial and become sufficiently predictable, this could produce cost savings for city services, create new financial flexibility in budgets and lead to lower financing costs. It could cut cities' need for long-term borrowing, for instance, boost their creditworthiness, and open new paths for generating revenue. So-called smart cities, for example, might be able to turn to cash generated or saved by these kinds of projects to pay for them without new borrowing, according to some financial advisers.

"With better data, smart cities will actually budget things completely differently, from bus usage and road maintenance to parking revenue and emergency-responder needs," says Jay Collins, vice chairman of the banking, capital markets and advisory group at Citigroup. "The smarter cities get, the more investment they will attract, the more they will drive legacy costs down, and the easier they will be to finance."

For example, a city that collects real-time data about transit can reroute buses at less-busy times to minimize wear-and-tear expenses, freeing up cash. The data could also be a lure to tech companies that want to form partnerships with the city on private forms of transit.

Cash for U.S. cities isn't scarce at the moment. Investors have poured money into municipal-bond funds, even for riskier bonds, as they seek higher-yielding investments.

But many cities are facing some long-term financial headaches from technology that will require creative thinking, says Scott Corwin, a managing director at Deloitte LLP who leads a practice on the future of mobility in cities.

For instance, cities may see reduced revenue from cars if more people use ride-sharing or if they drive more fuel-efficient vehicles that generate smaller gas-tax receipts.

Mr. Corwin, along with urban planners and banks like Citigroup, is studying how cities can replace lost tax receipts in that area by again leaning on data and technology. For example, a city that is able to track the use of shared-scooter services can charge the companies for use of city bike lanes.

"Cities have limited investment capital to keep pace, so there's a greater emphasis on how you self-fund," Mr. Corwin says.

To get to that point, however, cities will have to consider a number of nonfinancial variables.

Most notably, data collection raises privacy concerns. In one recent instance, a government-sponsored "smart" project in Toronto has faced local resistance over questions about how personal data will be used.

Eva Blum-Dumontet, a researcher for Privacy International, a privacy-rights advocacy group, says that unlike with websites that ask permission to track your browsing, many people may not even realize they live in a city using smart technologies—or understand how it might benefit them.

“The question that cities and companies helping them really need to be asking themselves is, ‘How do we engage the citizens?’ ” says Ms. Blum-Dumontet. “The protection of people in public spaces is still very much unexplored.”

Cities will “need to make sure they have addressed both citizen-data-privacy concerns, and ultimately have citizen support for their data usage model,” says Citigroup’s Mr. Collins.

Mechanisms for that could include linking tax cuts to the budgetary success of a “smart” investment, or giving micro credits to citizens for discounted or free city services.

Beyond privacy, cities may also face challenges administering new technologies, something financial analysts would have to consider, says Thomas Doe, president of Municipal Market Analytics Inc., which provides research for municipal-bond investments.

That includes making sure cities can hire people able to manage and analyze all of the data being collected. Cities may end up relying on outside vendors, which could cause disputes over who owns the data generated, or lead vendors to ask for deregulation in exchange for their help.

“There are a lot of old brick-and-mortar factors inhibiting the efficiencies of a smart city,” says Mr. Doe.

**The Wall Street Journal**

By Telis Demos

June 10, 2019 10:03 p.m. ET

*Mr. Demos is a reporter for The Wall Street Journal in New York. He can be reached at telis.demos@wsj.com.*

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## Fitch Ratings: U.S. Managed Lanes Speeding Past Projections

**Fitch Ratings-New York-11 June 2019:** Performance is exceeding projections for eight managed lanes that are currently up and running, according to Fitch Ratings in its latest peer review for U.S. managed lane projects.

Strong performance led to Fitch upgrading two SR-91 express lane projects in Southern California, owned by Orange County Transportation Authority (OCTA) and Riverside County Transportation Commission (RCTC). “The opening of the RCTC SR-91 project in 2017 was very successful in its own right and also led to lasting revenue gains for the connecting OCTA project,” said Director Scott Monroe.

The sector’s better-than-expected performance reflects a combination of strong traffic and revenue trends in a sound overarching economic environment, solid demonstrated pricing power as an asset class, and a degree of conservatism in the development of Fitch’s cash flow cases.

Fitch changed its Managed Lanes characteristics assessment for four facilities to Midrange from

Weaker. Three of them, 95 Express Lanes, LBJ Infrastructure Group, and NTE 1 & 2 are exiting ramp-up with an adequately long history of strong demand and revenue generation, solid pricing power and adequate protections against exempt vehicles. The remaining facility, RCTC, has a short operating history but is performing far in excess of Fitch's projections and represents an extension of a long-lived facility with a good track record.

Fitch also rates five managed lane projects under construction, which are broadly on their way to being completed on time and within budget, according to Fitch Ratings in its latest annual peer review for U.S. managed lanes.

Fitch's "Peer Review of U.S. Managed Lanes" is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

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## Buyer Beware of States With a High Number of Muni Bankruptcies.

- **Nebraska has the highest number of municipal bankruptcies**
- **California has second-most failures, followed by Arkansas**

Municipal bankruptcies are so rare that bondholders scour each for potential precedents. But they're far more common in some states than others, according to data from Municipal Market Analytics Inc.

Of the 94 filed since 2007, California saw 16, the second most, MMA figures show. That's understandable given the most populous U.S. state's dominance among bond issuers in the $3.8 trillion market and its permissive attitude to such filings, which included the cities of Vallejo, Stockton and San Bernardino.

Continue reading.

**Bloomberg Markets**

By Romy Varghese

June 12, 2019, 9:00 AM PDT

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## Surging Cash Piles Leave States as Ready as Ever for a Recession.

- **Reserve balances rise to record high, budget group says**
- **Bond market is demanding smaller yield penalties from states**

If a recession comes soon, America's state governments are better prepared than ever.

With most states seeing tax collections rise at a faster-than-expected pace, governments have been setting aside more money to help them avert deep spending cuts the next time the economy contracts. Those so-called rainy-day funds have swelled to about $68.2 billion, with the median state having enough to cover about 7.5% of its annual budget, the most on record, according to a report released Thursday by the National Association of State Budget Officers. Next year, those reserves are expected to grow to $74.7 billion.

Continue reading.

**Bloomberg Markets**

By Elizabeth Campbell

June 13, 2019, 10:39 AM PDT

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## States, Cities Forgo Projects to Keep Glittering Balance Sheets.

- **While corporations step up borrowing, governments cut back**
- **States and cities owe $143 billion less than they did in 2010**

Asheville, North Carolina, has a growing population, a burgeoning beer industry and a big slice of the billions of dollars tourists spend each year visiting the Blue Ridge Mountains. It also has $390 million of work it wants to do on its infrastructure.

What the city hasn't been doing is running up debt to pay for it, with its 92,500 residents on the hook for only about $78 each for bonds backed by the general government budget. "We have a lot of people politely asking, 'You're a AAA city and your roads are terrible,'" said Vijay Kapoor, a city councilman. "What gives?"

That's the paradox of America's states and cities. The decade-long economic expansion has left surpluses where there were once deficits, interest rates are veering back toward more than half-century lows and there's hundreds of billions of dollars of spending needed to refurbish roads, sewers and public transportation systems. Yet around the country, governments are showing little interest in borrowing money, cautious that a recession that by some measures seems overdue could resurrect the years of austerity that followed the last one.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

June 14, 2019, 3:00 AM PDT

## S&P: As U.S. State Debt Levels Moderate, Transportation Funding Takes Center Stage.

State debt levels remain moderate despite many states experiencing increasing revenues following the last recession and the 2017 Tax Cuts and Jobs Act. However, S&P Global Ratings has observed a renewed focus on transportation projects as states consider taking on new debt, reform transportation-related revenues, and increasingly consider public-private partnerships (P3s) or other alternative deli…

Continue Reading

Jun. 11, 2019

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## How Building Schools Can Create Good Local Jobs Right Now.

Building a new school can benefit a community in more ways than one. Sure, there's the value of a new educational institution where students can take classes and graduate with their diplomas, but why wait years for that spanking new building to pay off?

Schools matter, but so does having a job. There is a high correlation between educational attainment and family income. Families in which parents are part of the workforce are more likely to send their children to college than families in which parents are unemployed. Instead of celebrating construction of a new school only for what it will offer students over the long term, we should also see it as an opportunity for underemployed family members to improve their children's schooling through the result of their own employment.

Some construction jobs pay above local averages, presenting opportunities to uplift an entire community. For example, in New Orleans, the median hourly wage is $16.36 per hour; some construction jobs pay more than $20 per hour. Instead of waiting for years for a new construction to pay off, it's time urban planners and education officials focus on investing in the community from the moment the first brick is laid.

Continue reading.

**The Brookings Institute**

by Andre M. Perry

Thursday, June 13, 2019

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## North American Corporate and Municipal CUSIP Request Volume Climbs in May.

NEW YORK, NY, JUNE 13, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for May 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a noteworthy increase in requests for new North American corporate and municipal debt identifiers in May.

[Read Report]

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## [Fifth Straight Month of Muni CUSIP Volume Growth.]

"Corporate and municipal issuers have been busy over the past few months, clearly taking advantage of the sustained low rate environment to raise new debt," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While year-to-date CUSIP request volumes are still in negative territory for several asset classes due to a slower pace in Q1, the recent trend has been toward a significant increase in pre-market activity among North American issuers."

[Read Press Release]

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## [The Stealth Bull Market In Bonds Of The Past Year.]

For many, summer means days at the beach and, ideally, nights at the ice cream parlor. Picking a flavor of ice cream is never an easy decision. The same can be said for bonds. Like ice cream, bonds come in 31 flavors (or so). U.S. government bonds are really different flavors of vanilla, from just plain vanilla to French to New York. Interest rates are the driver of the prices of government bonds; a rise in rates pressures prices down and vice-versa. A risk of default is virtually nil so credit risk does not influence the price.

Default risk becomes more important to investors considering buying the bonds of corporations, emerging markets or municipalities. With ice cream still on my mind, high-yield corporate bonds, or "junk," are the equivalent of the Ben & Jerry's flavor "Everything but the Ice Cream"; there is a good chance you don't care for something in the scoop, but it can still be a great choice. In addition to interest rates, junk bonds come with other risk considerations such as management quality, industry position or total debt service. For these reasons, junk bond prices are influenced not just by interest rate movements, but anything that could influence the ability of the issuer to pay back its debt.

Interestingly, the entire spectrum of bonds has participated in a stealth bull market for the past year. Over the 12 months ended May 31, 2019, the S&P 500 eked out a 3.8 percent gain. Any flavor of bonds earned better than that. The Bloomberg Barclays U.S. Aggregate Bond was up nearly 7 percent over the same time period. Municipal bonds, high-yield corporate bonds and emerging markets debt all outpaced the broad U.S. stock market too and, even better, did so with less drawdown. The S&P 500 shed just over 6 percent in May and nearly 20 percent in late 2018. No bond asset class suffered those kinds of losses. Bottom line: all flavors of bonds have provided better return with less risk than U.S. stocks over the past year.

This bull market in bonds, though, has hardly been noticed. It could be due to the difficulties and challenges that come with choosing between such different flavors of bonds and then participating in uptrends while stepping aside during declines. We use a rules-based approach. Rather than trying to predict the outcomes of tariff negotiations, of Federal Reserve meetings, of the shape of the yield curve or the weather next month, we study what the market is telling us and react with a truly tactical discipline.

Last month, a few of our holdings in high-yield corporate bond funds fell enough to reach sell signals. Those monies were redeployed into long-term government bond funds, which have been in a strong upward trend. Our rules are currently guiding us to a preference for municipal bond, preferred stock and long-duration Treasury fund where the trends are strong. Now, if only choosing an ice cream flavor were this easy.

FINANCIAL ADVISOR

JUNE 14, 2019 • TERRI SPATH

*Terri Spath is chief investment officer at Sierra Investment Management.*

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## Muni Bond Mid-Year Outlook: Despite Favorable Tailwinds, Be Cautious

**Summary**

- The municipal bond market is off to its hottest start in five years, led by the lower-rated segments of the muni market.
- Year-to-date, the municipal market has returned 4.9% due to a combination of favorable supply-and-demand dynamics and falling Treasury yields.
- While the pace of fund flows may slow, we expect demand for municipal bonds to remain strong over the rest of the year.

The municipal bond market is off to its hottest start in five years, led by the lower-rated segments of the muni market. It may be tempting to chase returns, but we suggest that investors instead take a cautious approach and focus on higher-rated issuers during the second half of the year. We see heightened risks on the horizon, with the possibility of a prolonged trade war, uncertainty about Federal Reserve policy, and the possibility of a decline in tax revenues caused by a slowdown in the economy.

Continue reading.

**Seeking Alpha**

By Cooper J Howard

Jun. 14, 2019

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## A Ponzi Scheme, a Retiree and a Revolt Against OppenheimerFunds.

- **Florida real estate district files for bankruptcy protection**
- **Sets fight with bondholder over legacy of subprime collapse**

Donald Dwyer left statehouse politics for retirement in Clearwater, Florida, at the Grand Venezia, a 336-unit condominium complex with a pool, tennis courts and ill-fated ambitions to bring a touch of Italian luxury to the Gulf Coast.

But the former Maryland lawmaker is now leading an unusual community tax revolt against

OppenheimerFunds Inc., which oversees $230 billion in assets, that may echo far beyond his tiny patch of Florida's western shore.

During the height of the real estate bubble, the Clearwater Cay Community Development District sold notes and bonds for a development that was supposed to include a water park and a gondola-lined canal with Venice-style bridges that would turn the Grand Venezia into a destination resort. But those amenities were never constructed, and the developer is serving a 40-year prison sentence for running a Ponzi scheme. So on June 4, Dwyer and the district's board of supervisors opted to push it into bankruptcy, seeking to reduce the debt and the approximately $1,500 they each pay every year for it.

The district had $13.9 million in bonds outstanding as of September 2017, according to its financial report, though Dwyer said he has doubts about the accuracy of that figure. OppenheimerFunds owns all of it.

"I have no option other than filing bankruptcy," said Dwyer, 61. "We're going to let somebody else intervene on our behalf because this has gotten insane."

The step marks a rare, if quixotic, challenge to a major corner of the tax-exempt bond market where companies routinely raise money to build roads, sewers and other infrastructure for new real estate developments. When the properties are sold, fees charged to homeowners by their land districts cover the debt. There is about $7.3 billion of such securities outstanding in Florida alone, with billions more in fast-growing states such as California, Texas and Colorado.

**Uphill Battle**

James Spiotto, managing director of Chapman Strategic Advisors LLC and an expert of municipal bankruptcies, said the district faces an uphill fight. He said he's not aware of any other community-development district that has gone bankrupt in Florida, and it will need the approval of the governor. Moreover, the revenue securing the bonds — the assessments — is a very secure type of debt that is "not supposed to be impaired," he said.

"I don't really know if they can avoid the debt obligation," Spiotto said.

An OppenheimerFunds spokesman declined to comment. In August, a state judge sided with the firm by striking down residents' earlier effort to dissolve the Clearwater Cay district and claw back debt payments. At a meeting with residents that month, Brian Crumbaker, a Tallahassee-based lawyer for OppenheimerFunds, said there would be widespread defaults in Florida if such districts were allowed to repudiate their debts.

The Clearwater Cay district was created in 2005, during the height of the housing mania, to bring the look of Venice, Italy, to a stretch of coastal property about 22 miles (35 kilometers) from Tampa. It issued debt backed by a tax levy on a 49-acre area that developer Dave Clark promised to transform into a "luxury, regional resort destination" with apartments, shopping, and a water park, according to 2005 debt offering documents.

But Clark's business ventures unraveled. According to the U.S. Justice Department, his company, Cay Clubs, defrauded investors by raising $300 million to redevelop dilapidated vacation-rental properties in Florida, Las Vegas and the Caribbean. Regulators said it was a Ponzi scheme that relied on fraudulent purchases to artificially inflate the property's values, including those in Clearwater. In 2016, he was sentenced to 40 years in prison.

**Suing Over Fallout**

Bruce Barnes, a lawyer based in Safety Harbor, Florida, who has represented those who sued Clark, says he has been dealing with the fallout from the Clearwater development for 12 years. Barnes said that in 2014 he began to look into residents' concerns over why they were still paying assessment charges associated with the district's debt.

That money was going to OppenheimerFunds, which purchased the debt in 2006 and 2007 for two of its mutual funds, including its high-yield municipal fund, according to court filings. That fund, the fourth-biggest of its kind with $7 billion in assets, has been known to make risky bets, includingon debt sold by real estate development districts roiled by the subprime crash.

In 2016, Barnes sued the district and the mutual funds on behalf of a condo association at the Venezia, saying the annual fees between $1,400 and $1,500 were going to debt issued for a district that wasn't legitimate. The lawsuit asked for OppenheimerFunds to refund the assessments, claiming the debt wasn't used to benefit the community. Last year, the judge ruled against the homeowners while ordering the size of the fees to be reassessed, according to court records.

In a lengthy district board meeting with residents in August, Crumbaker, the OppenheimerFunds lawyer, said the bond proceeds did provide a benefit by funding land purchases and water and sewer services. He said the only risk that the firm took on was that the debt payments would fall short if individuals stopped paying their tax bills, not that the district would repudiate its obligations. "Otherwise, every city, county, school board, 600 community development districts in Florida, et cetera, would be doing the same thing," he said.

After the judge sided with the investment firm, Dwyer mounted a takeover of the district board in November. He said OppenheimerFunds hasn't provided details about how the assessment money is being used or how much debt is still owed. The 2017 financial report notes that the district couldn't provide "evidential matter" on the trustee's expenditures from the debt service fund.

"I'm not going to assess my community for a debt I can't justify," he said.

OppenheimerFunds is no stranger to such legal fights. Its funds were big owners of bonds issued by Puerto Rico, which is now working through a record bankruptcy. In September, it sued Harvey, Illinois, after it defaulted on bonds issued in 2007.

The district decided to file for bankruptcy in the hopes of getting the investment firm to the bargaining table, Dwyer said. "It might mean that the bondholders take a haircut," he said. "They're going to have to write down some of their debt, or walk away from all of it."

**Bloomberg Markets**

By Amanda Albright

June 10, 2019, 4:30 AM PDT

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## How Can City Governments Protect Themselves Against Ransomware Attacks?

The most recent incident in a series of ransomware attacks on American cities and municipalities happened in May in Baltimore. The hackers locked multiple systems such as emails, voicemail, and the parking fines database. The debacle delayed the sales of about 1500 homes in the city. Hackers have demanded over $100,000 in bitcoins in order to release these files, which has been declined by

Baltimore’s mayor.

Ransomware attacks have quickly become a preferred method of hacking with the emergence of bitcoins and other cryptocurrencies that enable hackers to receive their ransom without being tracked and identified. The popularity of cryptocurrency has soared in the recent years with fluctuations in their value. As these currencies become more mainstream, so does the incentive of hackers to make a quick buck through ransomware attacks. As I had warned before, we should expect ransomware attacks to become more frequent as cryptocurrency becomes more popular.

The bad news is that once a computer system is hacked with ransomware the options are very limited. The first option is to pay the ransom. While this is the quickest way to release the files, law enforcement officials strictly advise against it, simply because paying the ransom invites future attacks. Once the hackers know that an organization pays the ransom, they will repeat their attacks for more money. The other option is to refuse the payment. While this solution reduces the chances of future attacks, it will impose significant costs on the organization as it may take weeks or even months to remove all the malicious software from the computer systems.

The good news is, although there is not much to do once a system is attacked with ransomware, it is very easy to significantly reduce the chances of being attacked. While even the most secure computer systems could be hacked as there is no security technology that guarantees 100% protection against threats, implementing the most basic security solutions could significantly reduce the chances of experiencing a ransomware attack.

Most such attacks are not targeted, but opportunistic. Hackers look for organizations and businesses that seem more vulnerable than others. The ones that have neglected to set basic security standards in place are more likely to be targeted for ransomware attacks. The process is very similar to burglaries in which the criminals do not target a specific home, but rather cruise neighborhoods to find houses that do not seem to have security systems.

The best defense against ransomware attacks is putting basic security safeguards in place. It will most likely dissuade hackers that are after a quick buck and are not motivated to spend time hacking into a secure system while there are easier targets out there.

The critical services provided by government agencies make them attractive targets for ransomware attacks. In the case of Baltimore, the attack halted home sales and water bill payments. Due to the sensitivity and urgency of services that government agencies provide to the public, cities cannot afford to leave their computer systems suspended for prolonged periods. Hackers are more likely to attack city governments, assuming that cities will be desperate to release their files and pay the demanded ransom.

As I have discussed earlier, compared to private organizations, government agencies usually have less resources to invest in information security technologies. Old and fragmented computer systems exacerbate this problem, since older systems are much more difficult and expensive to maintain than newer ones. Despite these difficulties, all levels of government should invest in upgrading security technologies to reasonable levels, or else many more agencies will soon become victims of ransomware attacks in the future.

**The Brookings Institute**

by Niam Yaraghi

Tuesday, June 11, 2019

## How to Choose a Municipal Advisor.

**State and local governments rely on municipal securities to raise money to finance projects for their citizens.**

The process of issuing these securities involves working with municipal advisors to negotiate the structure, pricing, timing and distribution of bonds with the underwriters. Like a fee-only personal financial advisor, municipal advisors work to ensure deals are made in the best interest of their client.

Let's take a look at the role that municipal advisors play in the process and how to select the right advisor.

**Who Are Municipal Advisors?**

Municipal advisors assist state and local governments with issuing municipal securities. Unlike underwriters, they have a federal fiduciary duty to their government clients and are required to act in their best interests. They are regulated by the Municipal Securities Rulemaking Board, or MSRB.

Municipal advisors offer a wide range of different services and have various compensation structures. When selecting an advisor, it's important to consider skill gaps in the municipal staff, the expertise of the municipal advisor, and how that expertise applies to the specific project.

Many state and local governments use municipal advisors to ensure that deals with underwriters are fairly structured, as well as to ensure that their documents are up to par. After all, any accidental or intentional omissions in regulatory disclosures can lead to costly lawsuits and fines.

**What Services They Provide**

The process of issuing municipal securities begins with the preparation of an official statement that explains the bond's features and characteristics. In addition, state and local governments must provide continuing disclosures and may want to present them to rating agencies for coverage.

Municipal advisors can help with each of these steps by:

- Developing a financing plan
- Evaluating and selecting an underwriter
- Preparing rating agency presentations
- Preparing offering documents
- Evaluating market conditions

It's worth noting that underwriters have different financial interests than issuers – their goal is to profit from the bond offering by buying low and selling high. Municipal advisors can help negotiate the structure, pricing, timing and distribution of the bond offering with underwriters to ensure a fair deal.

**How to Select the Right Advisor**

Municipal advisors offer a wide range of services with many different compensation structures, which means that it's important to find the right advisor for your needs.

The first step is finding the right match for your requirements. For example, issuers that don't plan on rating their bonds do not require a municipal advisor that specializes in presenting to rating agencies. The best advisors close any skill gaps with specific expertise.

The second step is determining the right compensation structure, which might include:

- Fixed fees
- Hourly fees
- Contingent fees
- Retainer fees
- Transaction fees

A fixed fee structure is a great option since it caps the total expenditure to a known amount, whereas hourly fees could quickly add up and go over budget without oversight. Contingent or transaction fees may be preferable to some issuers that want to ensure a transaction closure before spending money.

The final step is documenting the agreed upon services and fees. In order to avoid any confusion, both parties should agree on a detailed scope of services and their fees, including services that are NOT provided and any maximum compensation amounts or other conditions that may exist.

For more information, see the MSRB's Financial Considerations for Hiring Municipal Advisors here.

**The Bottom Line**

Municipal advisors are instrumental for state or local governments that are issuing bonds. Like a fee-based personal financial advisor, they work in the issuer's best interest to ensure a fairly structured deal with underwriters that includes all of the necessary disclosures for investors.

**municipalbonds.com**

by Justin Kuepper

Jun 12, 2019

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## Opioid Makers Squeezed as Cities Try to Form Group for Talks.

- **Counties, cities seek to negotiate settlement collectively**
- **Suits already consolidated by judge for pre-trial discovery**

More than 1,500 U.S. municipalities are seeking to negotiate as a group with Johnson & Johnson, Purdue Pharma LP and other drug makers over the opioid epidemic, hoping that will spur the companies to pay billions of dollars to settle lawsuits.

The cities and counties, which blame the drug makers and distributors for creating a national public-health crisis by illegally promoting addictive painkillers, asked U.S. District Judge Dan Polster in Cleveland Friday to let them create a negotiation class. The suits were already consolidated for pre-trial exchanges of information in the so-called multidistrict litigation, or MDL.

"This is not a litigation class," the group wrote. "It does not affect the prosecution of existing actions filed against opioid manufacturers, opioid distributors or pharmacies."

Settlement talks between J&J and Purdue, along with drug distributors such as McKesson Corp. and Cardinal Health Inc., and states and local governments who have their cases before Polster, have been dragging, as it appears the companies are prepared to take their chances in court.

Under the proposal presented to Polster, the municipalities would have a supermajority voting process that can approve any proposed settlement, with three-quarters being required to vote in favor.

“It has long been recognized that a coordinated group is best able to secure better returns by offering the prospect of complete resolution of a dispute,” the municipalities said.

Purdue said it’s committed to working with everyone toward a resolution that benefits communities and states.

“We continue to work collaboratively within the MDL process outlined by Judge Polster,” Bob Josephson, a Purdue spokesman, said in an email.

J&J didn’t immediately respond to a request for comment on the proposal.

J&J is currently trying to fend off Oklahoma’s $13 billion lawsuit before a judge in Norman. It’s the first trial in which a state seeks to force a drug maker to cover the cost of the fall-out from opioid-related overdoses and addictions.

New Brunswick, New Jersey-based J&J is alone fighting the Oklahoma lawsuit. Purdue, the top marketer in the state, settled in March for $270 million. Teva Pharmaceutical Industries Ltd. agreed to pay $85 million, days before the trial started on May 28.

In Cleveland, the judge has pushed both sides hard to settle.

“It is no secret that there have been settlement discussions right from the onset,’’ Rice and other plaintiffs’ lawyers said in court filings. The talks are ongoing, according to the filing.

Allowing the plaintiffs to come together for negotiation purposes offers “the perfect mechanism for allowing the affected cities and counties to negotiate credibly and effectively as a group,’’ the lawyers said.

The case is In Re National Prescription Opioid Litigation, 17-md-2804, U.S. District Court, Northern District of Ohio (Cleveland).

**Bloomberg Business**

By Jef Feeley and Andrew M Harris

June 14, 2019, 8:41 AM PDT Updated on June 14, 2019, 10:16 AM PDT

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## Local Governments Seek Negotiating Power in Opioid Lawsuit.

COLUMBUS, Ohio — Lawyers suing over the toll of opioids asked a judge Friday to allow a structure for all 25,000 municipal and county governments in the U.S. to be paid — if a settlement can be reached with companies that make and distribute powerful prescription painkillers.

The approach, if approved, would create dueling negotiating systems as state governments are also in collective settlement negotiations with the drug industry.

The unified approach on behalf of municipalities would also help the manufacturers and distributors by defining a finalized group of entities benefiting from a settlement, said Joseph Rice, a South Carolina-based attorney representing local governments in the complaint.

“If you’re a corporation trying to address this problem, you need to get closure, you need to put it behind you,” Rice said in an interview Friday. “If you’re going to put significant resources into the resolution, you’ve got to know it’s behind you. The only way to do that is to get releases from everybody that’s got a potential claim.”

The action would also help address a problem that is widespread and reaches across city and county lines, Rice said. Providing assistance from a settlement to one county doesn’t help the people in a neighboring town, he said.

“These pills have wheels, they move around,” Rice said, citing the documented cases of pain pills obtained in Florida being taken to West Virginia.

The motion filed Friday requests the creation of a negotiating class “for the specific purpose of creating a unified body to enter into further negotiations with defendants,” according to the filing. “It is neither aimed at being the vehicle for litigation or settlement.”

Hundreds of local governments and other entities, such as hospitals, have accused pharmaceutical companies of downplaying the addictive nature of opioids and prescription painkillers largely blamed for one of the deadliest drug crises in U.S. history. Opioids include prescription and illicit drugs.

The complaints are being overseen by Cleveland-based U.S. District Judge Dan Polster. He previously ruled that lawsuits filed by the Ohio counties of Cuyahoga, which includes Cleveland, and Summit County, which includes Akron, will be heard first this October.

A trial on claims made by West Virginia’s Huntington and Cabell counties will be next, followed by Cleveland and Akron’s claims.

The Centers for Disease Control and Prevention says opioids are the main driver of drug overdose deaths. Opioids were involved in 47,600 overdose deaths in the U.S. in 2017, according to the agency.

Attorneys general fighting for compensation in separate legal actions are likely to have mixed reactions to the filing, said Paul Nolette, a Marquette University political scientist.

With the lone exception of Nebraska, every state has sued, filed administrative charges or promised to sue the companies blamed for the national crisis, which played a role in the deaths of more than 390,000 Americans from 2000 through 2017.

On one hand, the move could complicate things for the states, which see themselves as negotiating both on their behalf and communities within the state, said Nolette, who studies attorneys general. On the other, some may welcome the pressure that a giant class of communities puts on drug makers and distributors to settle.

Many municipalities felt left out of states’ 1998 $200 billion-plus settlement with tobacco companies, Nolette said, especially after some states diverted their share to fill budget holes instead of paying for anti-smoking programs.

“At least in this litigation, the municipalities are saying, ‘No, that’s not good enough.’ We want our own voice,” Nolette said.



In Ohio, the state has sued drug makers and distributors in separate court actions. Attorney General David Yost on Friday called communities’ request for their own negotiating class “an extraordinary process and a novel approach.”

“We’re examining it very closely to make sure it is fair and appropriate for Ohioans and complies with the law,” Yost said in a statement.

By The Associated Press

June 14, 2019

Associated Press writer Geoff Mulvihill in New Jersey contributed to this report.

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## Why Public Finance?

By Rob Whiteman, CEO, Chartered Institute of Public Finance and Accountancy

A career in public finance is a fantastic way to make a real difference to people’s lives. The careful management of public money is always essential but particularly in the current political and economic climate. Working in the public sector allows finance professionals to have a long-lasting and meaningful impact on local communities on a local, national and global level.

There are many different facets to working in the public sector. It could mean working to preserve vital services that are desperately needed by people who are vulnerable and disadvantaged, immeasurably improving their quality of life. It could mean working on measures to alleviate inequality, rethinking how social issues can be addressed through new initiatives at all levels of society. It could also mean advocating for prudent and transparent financial management practices at the very highest levels of government. This includes acting in accordance with stringent ethical standards in order to preserve and enhance public trust in civil institutions. Acting in the best interests of the general population is at the heart of public service, even when it means making the difficult choices.

Working in public finance demands high levels of creativity, finding innovative ways to use limited resources in order to best serve communities. In a continually evolving environment, there are rewarding opportunities to exercise ingenuity in the pursuit of new solutions where old strategies are no longer fit for purpose. Sustainability is also a key priority, with the best public finance initiatives building long-term thinking into the planning stage to ensure quality services are delivered to taxpayers in the years to come, as well as in the immediate future.

In an increasingly connected world, the international dimension of a public finance career is becoming ever more prominent. The profession as a whole is recognizing the importance of working and learning together. As we face up to global challenges such as a rapidly changing climate, the public sector has a unique role to play in exchanging ideas and sharing what works. The ability and willingness to operate internationally opens up the chance to collaborate and learn new ways of doing things, which in turn will drive improvements and transformation across the public sector around the world.

Flexibility and adaptability are vital qualities for the 21st Century public finance professional. Such qualities are key to working internationally. Those who are willing to reach across borders and cultural boundaries are best placed to question inherited practices in their own contexts and introduce new ideas, thereby ensuring the most effective stewardship of public resources.

The pathway offered by the Chartered Institute of Public Finance and Accountancy to a globally-recognized public finance qualification supports a modern public finance career. Developed with Rutgers to expand on their Master of Accountancy in Governmental Accounting Program, this pathway adds an additional dimension to the Rutgers education. It draws on CIPFA's unique expertise as the international leader on public sector finance, upholding professional standards and supporting individuals as they pursue excellence in financial management at all levels of government around the world. This new pathway will unlock opportunities to work internationally and develop skills that are urgently needed in the public sector.

CIPFA's training and resources have equipped generations of public sector finance professionals and will continue to support the next generation, leading us into a financially sustainable future for the greatest public good across the globe.

**Rutgers**

Wed, June 5, 2019

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## EPA Grants Augment Bond Financing.

The Environmental Protection Agency awarded 149 communities with Brownfields Program grants to clean up hazardous substances, and some municipalities are pairing those grants with municipal bonds.

A brownfield is a property that has been polluted by a hazardous substance, or contaminant. EPA estimated that there are 450,000 brownfields in the U.S. EPA's Brownfields Program started in 1995 and this year about 40% of the selected recipients received the grants for the first time, Andrew Wheeler, EPA administrator said in a press release.

The public safety center in Beaverton, Oregon was awarded $300,000 to assess sites in its downtown area.

Finance Director Patrick O'Claire said Beaverton is looking to eventually add more affordable housing and space for companies wanting to move in, adding that the grants will help achieve those goals.

Last year, Beaverton used $400,000 in brownfields grants to address a petroleum contamination that imposed health risks to groundwater and local streams from a nearby gas station. That site was designated for a future public safety center, an earthquake resistant police and emergency management building.

In 2016, Beaverton residents passed a $35 million bond resolution to fund the new center.

In the past, other projects have also used a combination of bond financing with brownfield grants. Riverfront Park in Spokane, Washington was in need of an upgrade and in 2014 it issued $64 million in bonds to fund improvements. The total cost of the project is expected to exceed $70 million and is located in a federal Opportunity Zone.

Opportunity Zones were authorized under the Tax Cuts and Jobs Act enacted by Congress in December 2017 to encourage investment and job creation in low-income urban and rural communities. OZs allow investors to defer and reduce capital gains and for investments held at five or seven years, and in the case of investments held at least 10 years, avert tax on any appreciation.

In 2014, Spokane was awarded $400,000 by EPA to assess vacant, underutilized and abandoned properties. In 2017, the city was awarded $600,000 in additional EPA brownfield funding to clean up and revitalize the 100-acre park.

"These grants fulfill several of President Trump?s top priorities simultaneously: helping communities in need transform contaminated sites into community assets that not only create jobs and jump start economic development but also improve public health and the environment," Wheeler said.

Maine received more brownfields grant funding than any other state for the assessment and cleanup of 14 sites, with $6 million in EPA funding, according to a press release.

"The Brownfields Program has proven to be a major benefit to the overall health and vitality of Maine communities," Maine Senators Susan Collins, a Republican and Angus King, an independent said in a joint statement. "In addition to cleaning up hazardous substances and improving our environment, this investment will help communities create new economic development opportunities to attract businesses that create good jobs for Mainers, particularly in rural areas."

In 2016, both Collins and King called for the Department of Commerce to take immediate action to help Maine?s economy after several mill closures left it in an economic crisis.

In January 2017 an assessment from the U.S. Economic Development Assessment team highlighted the importance of EPA?s brownfields program and its potential to leverage federal resources to redevelop former industrial sites, support mill communities and grow Maine?s rural economy.

In fiscal year 2018, the EPA selected 144 communities for brownfields environmental assessments, and in 2017, 172 communities received the brownfields grants.

Clean up of brownfield properties led to residential property value increases of 5% to 15.2% within 1.29 miles of the sites, according to a 2017 study. The EPA also noted that near 48 of those brownfield sites, another study found an estimated $29 to $97 million in additional tax revenue for local governments in a single year after cleanup.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 06/06/19 02:51 PM EDT

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## [Municipal Bonds Benefit From SALT Limitations And Congestion Pricing.]

**Summary**

- **The U.S. municipal market is hitting on all cylinders – modest growth, reasonable inflation and solid fundamentals are all drivers.**
- **Congestion pricing is becoming a major force.**
- **New limitations on state and local tax deductions increase the value of tax-exempt income.**

The U.S. municipal fixed income market is hitting on all cylinders. Modest domestic economic growth, reasonable inflation, lackluster new issue supply and sound fundamentals continue to drive investors into the tax-exempt bond market.

This performance further stems from new limitations on state and local tax deductions (SALT), which increases the value of tax-exempt income. Also, tax-adjusted municipal yields are attractive for maturities beyond 10 years.

The muni market has distinct seasonal trends which can make investing timing important. Demand for tax-exempt income overwhelmed the usual selling in the secondary market during tax season, specifically in April, when flows into municipal bond funds and separately managed accounts surged.

Continue reading.

**Seeking Alpha**

By Rob Amodeo, Portfolio Manager, Western Asset

Jun. 3, 2019

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## Fitch U.S. College and University Rating Criteria Finalization.

PRIMARY CRITERIA CHANGES

- Introduction of individual assessments of three new key rating factors: revenue defensibility, operating risk and financial profile
- Explicit alignment of financial profile with business profile in rating assessment
- Introduction of the Fitch Analytical Stress Test (FAST), an issuer specific scenario analysis tool measuring the effect of demand stress on revenue, operating expenses, cash flow and rates
- New metrics to enhance our analysis, including cash flow margin, adjusted debt and price sensitivity

CHANGES BASED ON MARKET FEEDBACK

- Clarification of how FAST is constructed and used, and Fitch's decision to not publish specific out-year scenarios that could be misinterpreted as projections
- Revised nomenclature for our new 'cash flow margin and cash flow margin – adjusted' metrics
- Added clarity on Fitch's approach to FASB pension plans and other post-employment benefit (OPEB) liabilities

Read the Updated Criteria.

## Fitch Ratings Updates Availability-Based Project Rating Criteria.

**Link to Fitch Ratings' Report(s):** Availability-Based Rating Criteria

Fitch Ratings-London-07 June 2019: Fitch Ratings has completed the annual update of its "Availability-Based Project Rating Criteria". The update included refining the Debt Structure key rating driver and removing the reference to counterparty ratings in the assessment of Revenue Risk. This may result in Revenue Risk assessment migrating from 'Midrange' to 'Stronger' in some projects, but will not have any rating impact as revenue counterparty credit quality is still considered as part of counterparty risk.

We do not anticipate any changes to ratings of availability-based transactions as a result of the new criteria.

The report 'Availability-Based Project Rating Criteria' replaces the previous version of the same name published on 23 August 2018 and is available at www.fitchratings.com or by clicking the link above.

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Additional information is available on www.fitchratings.com

## Muni Market's $14 Billion Calendar Hints at Year's Busiest Month.

- **Calendar of new offerings jumps to highest since October**
- **Surge expected to come before market slowdown in July**

A week after Memorial Day and with the Fourth of July on the horizon, a summer haze is in full swing in New York as the temperature creeps up and city dwellers flock to the Hampton's on Friday afternoons. But municipal-bond traders shouldn't pack their bags just yet.

State and local governments are so far scheduled to issue about $14 billion in municipal bonds over the next 30-days, a metric that usually captures less than half of what is actually issued because many deals are scheduled with less than a month's notice. It's the busiest calendar since October.

Muni-bond issuance poised for busiest month since October

One reason for the uptick could be that its easier and cheaper for local governments to issue bonds around the end of the fiscal year, after they've wrapped up their new budgets, suggested Patrick Luby, a municipal strategist at CreditSights. June is typically among the busiest months for new debt sales, according to data compiled by Bloomberg.

"Issuers tend to get clumpy when they come to market at the end of the fiscal year or the end of the quarter when they're preparing their financial disclosures, it makes it less expensive to bring a new issue," he said.

This year, they can also seize on lower borrowing costs, which have tumbled among rising speculation that the Federal Reserve will cut interest rates this year. And over the summer months, the debt payments investors receive typically far exceed the volume of new securities sales, helping support the market as bondholders seek to reinvest the cash. Citigroup Inc.'s analysts estimate that investors will receive over $90 billion more than they'll be able to reinvest, which they said is a "bullish signal" for a market that's already rallied this year.

While June tends to be a busy time for new debt issues, the pace typically slows considerably in July.

"Even if we get a nice little pick in June, it's not going to last in July," Luby said. "There's definitely the underwriting slowdown as people pack up and head to the beach after the Fourth."

**Bloomberg Markets**

By Danielle Moran

June 4, 2019, 8:14 AM PDT

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## What it Costs to Die.

**Funerals have become a luxury that many Americans can't afford. Local governments are paying the price.**

Jimmy Pollard knew his state had a serious problem surrounding death. As the coroner for Henry County and a consultant for the Kentucky Coroners Association, Pollard had seen lots of instances in which family members couldn't afford to bury or cremate a loved one. But the problem of "funeral poverty" was getting worse.

Pollard realized just how bad things had gotten when, a few years ago, the county judge approached him and said, "I'm out of money for indigent burials this year, and I've got six months left to go."

Despite pleas from the judge and from Pollard, neither the state nor the county has invested more money for burials. "I tried to talk to the state judges' association," says Pollard, "but I could tell it didn't really soak in. More money would help, but right now is a bad time to ask for more money in Kentucky for anything, because it's just not there."

Continue reading.

GOVERNING.COM

BY LIZ FARMER, MATTIE QUINN | JUNE 2019

June 6, 2019

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## [P3 Act Would Remove the Volume Cap for Green Infrastructure PABs.]

Congressional legislation that would expand the use of private activity bonds to include so-called green bonds has been introduced by two House Democrats from Washington state as lawmakers continue to offer proposals for infrastructure investment.

The Preventing Pollution through Partnerships Act or the P3 Act introduced by Rep. Derek Kilmer, D-Wash., and original cosponsor Rep. Denny Heck, earlier this month is the same bill Kilmer proposed in the last Congress with Heck and Rep. Marcy Kaptur, D-Ohio.

The legislation would allow state and local governments to issue tax-exempt PABs not subject to state volume caps if at least 95% or more of the net proceeds are used to develop, carry out, or certify approved green infrastructure projects.

Eligible projects would be certified by the state to construct, rehabilitate, maintain, or repair infrastructure that effectively addresses nonpoint source pollution by preserving, enhancing or mimics natural infiltration, evapotranspiration, or capture of storm water.

According to an infrastructure issue brief by the nonpartisan Congressional Research Service, "Green infrastructure encompasses a range of facilities that some consider environmentally friendly, such as wind and solar energy production. As applied to stormwater management, the term refers to facilities that deal with urban runoff at the source, such as rain gardens, bioswales, and permeable pavements."

Kilmer's office said the P3 Act would allow governments to use PABs to finance private-sector development projects that build green infrastructure.

"For example, under this bill, municipal governments could finance a project built with private sector money to retrofit an old strip mall parking lot with permeable pavement that absorbs water rather than letting it flow into the sewer system and ultimately Puget Sound," Kilmer's office said.

Kilmer, who represent the Puget Sound area, said at the time of the introduction of his earlier bill that stormwater is the biggest source of pollution in Puget Sound. "That's why we need to make it easier for communities to invest in green infrastructure for the benefit of all Washingtonians who call Puget Sound home," he said in a press statement.

Kimler linked the economic health of his state and its identity to the future of the orca population and salmon and shellfish industries.

A CRS report published in 2016 about urban stormwater said, "Municipal bonds are the most frequently used tool for water infrastructure financing at least 70% of U.S. water utilities rely on municipal bonds and other debt to some degree to finance capital investments."

The CRS report also said, "The growing interest in green infrastructure practices is driven to a great extent by arguments that it is a cost-effective way to manage urban stormwater problems, particularly compared with costs of gray infrastructure _ cities with combined sewer systems have documented that the use of green infrastructure practices to reduce runoff volume is cost-competitive with conventional stormwater and CSO controls."

“In general, recent examples indicate that properly scaled and sited green infrastructure can deliver equivalent hydrological management of runoff as conventional stormwater infrastructure at comparable or lower costs. It has been estimated that green infrastructure is 5%-30% less costly to construct and about 25% less costly over its life cycle than traditional infrastructure.”

The 2016 CRS report also described examples involving New York City, Cincinnati, Louisville, Chicago, Seattle, Milwaukee and Lancaster, Pennsylvania.

CRS said green infrastructure includes green roofs, downspout disconnection, trees and tree boxes, rain gardens, vegetated swales, pocket wetlands, infiltration planters, vegetated median strips, curb extensions, permeable pavements, reforestation, and protection and enhancement of riparian buffers and floodplains.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 05/30/19 03:10 PM EDT

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## S&P Extra Credit Episode 30!

This week hear Lisa Schroeer talk with state analyst experts David Hitchcock and Sussan Corson about how “U.S. States Take Advantage Of A Prolonged Economic Expansion”.

Listen to audio.

Jun. 3, 2019

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## S&P Fiscal 2018 U.S. Charter School Sector Medians: Overall, Enrollment And Financial Performance Improved.

S&P Global Ratings maintains 280 bond ratings in the U.S. charter school space as of May 10, 2019. Given the proliferation of school networks in the sector, these ratings are affiliated with over 1,000 charter schools. Despite a minor uptick in the proportion of speculative-grade credits, most key financial performance and unrestricted cash median metrics improved modestly from fiscal 2017, reflect….

Continue Reading

Jun. 6, 2019

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## An Overview of Green Finance.

Earlier this month, we introduced the concept of socially responsible investing (“SRI”), discussing both its genesis and modern-day appeal to investors and financial institutions. As a reminder, SRI usually falls into two categories: use-based, socially responsible investing and the more forward-thinking “environmental, social and governance” incorporated investing (“ESG”). Use-based, socially responsible investing is easy to visualize—just think of the investor who refuses to invest in a company that supports tobacco production. ESG, on the other hand, considers environmental, community, other societal and corporate governance criteria in investment analysis and underwriting decisions. Put another way, ESG looks beyond lending and investment standards by considering both the impact of environmental and social risk on the financial system, as well as the financial system's impact on environmental and social risks.

There is no doubt that our capital markets are going green. While the majority of ESG activity in this space has been on the equities side, debt markets have seen their share of growth in green and sustainable products. Annual reports and marketing materials published by some of the world's largest banks now include talking points about "green finance" and "green lending." Investors, customers, and communities are focusing their discussions on the availability of "green financing" and "green financial products", to the point where green finance now has its own vernacular. "Green bonds", "green loans", and "sustainability-linked loans", among others, have emerged as viable financing tools offered by lenders to companies focused on both the cost of capital and on social impact. "Greening the financial system" is a popular phrase used by professionals in this space.

While it is easy to throw around monikers and acronyms, generally speaking, there is a lack of understanding of green finance and green financing products. Ask someone to explain the difference between a green loan and a sustainability-linked loan and chances are you will get one of two reactions: a blank stare and corresponding lull in the conversation or a race to see whether Siri or Wikipedia provides the best answer in the shortest amount of time. In any case, the likelihood of you receiving a helpful answer from a reliable source is relatively small.

The purpose of this blog post is to clear up some of the more obvious confusion regarding green finance and green financing products. As an added bonus, we will introduce you to some of the more popular products emerging in this space. Thereafter, more detailed blog posts on these products will follow in the coming months.

Keeping in mind that no "green" dictionary currently exists and people often use terms interchangeably, sometimes with slightly different meanings, let us begin our walk through green lexicon:

"Green finance" refers to the financing (or refinancing) of new and existing public and private investments with sustainability objectives, as well as the related institutional and market arrangements that contribute to the achievement of these goals. Examples of sustainability objectives include renewable energy, conservation, and sustainable agriculture. Green finance can take many different forms, including green bonds and green loans which are discussed below. The terms "green lending" and "sustainable finance" are often synonymous with "green finance."

"Green bonds" (also referred to as "climate bonds") are bonds created to fund projects that have positive environmental and/or climate benefits. The majority of green bonds are "use of proceeds" bonds that earmark the proceeds of the bonds for specific projects that are designed to achieve these benefits, but are financially backed by the bond issuer's entire balance sheet. There are several types of green bonds available, including revenue bonds and securitized bonds.

"Green Bond Principles" refer to a voluntary, high-level framework/methodology of market standards and guidelines promulgated by the International Capital Market Association that address the eligibility criteria for green projects and the monitoring and use of financing proceeds. The Green Bond Principles ("GBP") do not require issuers to consider ESG generally or specify what constitutes a "green" project. Rather, the GBP leave the final determination as to what is "green" up to the market. A future blog post will discuss the main components of the GBP, as well as GLP and SLLP (which are discussed below).

“Green loans” are term loans that can be used to fund a range of environmental and sustainability projects, spanning areas including energy efficiency, waste and water management, green transport, sustainable farming and greenhouse gas emission reduction. Green loans may be structured as bilateral loans or syndicated loans. The hallmark of a green loan is that its proceeds are used solely to finance a pre-approved environmental or sustainability project. “Green project finance loans”(which are discussed below) fall within the ambit of green loans.

“Green Loan Principles” build off and refer to the GBP, but focus on bringing consistency to the green loan market (as opposed to the green bond market). Promulgated by the Loan Market Association and the Asia Pacific Loan Market Association, the Green Loan Principles (“GLP”) create a high-level framework of market standards and guidelines intended to provide a consistent methodology for originating, servicing and tracking green loans. The goal of the GLP is to preserve the integrity of the green loan market as it develops, while at the same time, allow the Green Loan product to retain its flexibility.

“Sustainability-linked loans” are loans designed to incentivize companies to meet their ESG targets. Unlike green loans, sustainability-linked loans do not require proceeds to be earmarked for specific purposes. In fact, the typical sustainability-linked loan is structured as a revolver for general working capital purposes. The attractiveness of sustainability-linked loans is their linkage between pricing (i.e., interest rate) and a borrower’s ESG performance. These loans are structured to offer a pricing discount (up to 5%) when a borrower meets or outperforms its ESG targets.

“Sustainability-Linked Loan Principles” build on and refer to the GBP and GLP. The first set of Sustainability-Linked Loan Principles (“SLLP”) was published earlier this year by the Loan Market Association, Loan Syndicated and Trading Association and the Asia Pacific Loan Market Association. The SLLP share the same goals as the GBP and GLP, but focus on the proliferation of sustainability-linked loans rather than green bonds or green loans. As mentioned above, a blog post regarding the SLLP (as well as the GBP and GLP) is forthcoming.

“Green banks” are banks, at both the community and national level, which specialize in financing sustainable or green projects. These banks have committed to promoting and supporting green initiatives by seeking out green projects and offering financial incentives to borrowers, including PACE loans, credit enhancement, co-investment opportunities and on-bill financing.

“Green asset finance” is a subset of asset financing that supports the financing of a variety of green assets through lease purchase, finance and operating leases. Qualifying green assets cover multiple thematic areas, such as energy efficiency, renewable energy, green transport, waste management and sustainable forestry. Green asset finance is more prevalent in Europe and Asia at this time.

“Green financial products” are financial products offered to consumers and businesses that either provide environmental benefits or reduce negative environmental impacts. Examples include green car loans, energy efficiency mortgages, green credit cards, and eco-savings deposits. Green financial products are provided by a variety of institutional lenders, including banks, credit unions and mortgage loan originators. They are available on a worldwide basis.

As you might imagine, the breadth of “green” vernacular is staggering. It would be fairly easy to put together an entire book on how to speak green as it relates to our financial system. Unfortunately, that would take more time and space than a series of blog post. Hopefully, though, this article has provided a sufficient basis for you to begin speaking green insofar as our debt markets are concerned, while at the same time given you a preview of some of the more popular green loan products that we will be highlighting in future posts. Stay tuned…

In case you missed the previous part of this series:
Part 1: An Introduction to Sustainable Lending

by Stacia Wells

Tuesday, June 4, 2019

**Bilzin Sumberg**

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## What's in the Disaster Aid Package for States and Localities?

**Congress passed a long-delayed bill to help places recover from past (and future) natural disasters. President Trump is expected to sign it.**

After months of delay, Congress passed a $19 billion aid bill on Monday to help places recover from natural disasters that have struck over the last two years — and to help cover costs of the ones yet to come.

As the political infighting wore on this year, more natural disasters — such as flooding in the Midwest and tornadoes in the South — bumped up the price of the legislation by roughly $5 billion. It's now one of the most sweeping disaster aid packages ever passed and heads to President Trump for his expected signature.

Communities in California, Florida and Texas — which have been ravaged by wildfires, hurricanes and floods — will likely be among the biggest beneficiaries. U.S. Sen. Dianne Feinstein says her state of California is eligible for more than $12 billion. *The Texas Tribune* reports that the legislation includes a provision to force the federal government to release more than $4 billion to Texas that Congress already allocated to the state a year ago.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 4, 2019 AT 1:10 PM

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## US Economy Is At Risk of Losing $4T in GDP If We Don't Act on iInfrastructure: American Society of Civil Engineers

American Society of Civil Engineers' Casey Dinges predicts the U.S. economy could take a major hit if lawmakers do not pass new infrastructure legislation.

"There is a hidden tax being placed on the U.S. economy right now by our current under-investment in infrastructure, so our Failure to Act economic reports showed that by the year 2025, we're putting at risk $4 trillion in U.S. GDP, 2.5 million jobs, and $7 trillion in business sales," Dinges told FOX Business' Neil Cavuto on Thursday.

Dinges added that he doesn't see infrastructure as a partisan issue, but rather "an American issue."

"If you're a high-tech business and you're looking to invest in America, you're going to be looking at the infrastructure of the community or the region you're going to be investing in. So it's very important, if the U.S. is going to stay competitive with the rest of the world, that we make these infrastructure investments. And if the leaders in Congress and the President are looking for a legacy issue to put their arms around, this would be a good one for the nation," he said.

Dinges, a senior managing director, said there will be greater use of the traditional public model going forward to address infrastructure concerns, which would could equate to higher taxes on gasoline and other highway fees, as well as more public-private partnerships.

"Currently through public and private investment streams, we're already investing $2.5 trillion. With an economy over $21 trillion a year and given how critical these investments are to the quality of life, to business, to public safety, it's just going to become more of a challenge the longer we wait," he said.

Last month, President Trump said he is considering an infrastructure plan that would cost between $1 and $2 trillion. The Trump administration has also said the federal government would fund 20 percent of any infrastructure plan, and give private sectors incentives to fund 80 percent of it.

**Fox Business**

Elise Oggioni

June 6, 2019

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## 'Park' Your Investments In Municipal Bonds.

Parks make places nicer. Communities with parks have healthier environments for residents, with better air quality, more opportunities for active living and positive social engagement. They benefit the regional economy as well. Parks and open spaces improve real estate values to nearby residents as well as attract visitors, in turn helping local businesses.

The county and city of San Francisco understands both the social and economic benefits of parks. Using its gilt-edged general obligation pledge (the city is rated Aaa/AAA/AA+), San Francisco issued $629.06 million in bonds through five series since 2010 for its Clean and Safe Neighborhood Parks program. San Francisco Recreation and Parks Department (SFRPD) applied the proceeds to acquire, expand, and improve the parks, playgrounds and other open spaces in the city.

Continue reading.

**Forbes**

by Barnet Sherman

Jun 8, 2019

## New Report Highlights Acquisition Trends in the U.S. Water Market.

The U.S. municipal water landscape is undergoing a transformation as critical infrastructure services — water, gas, and electricity — converge under single investor-owned utility banners. This trend is highlighted by the growing roster of diversified infrastructure service providers owning water and wastewater utilities in the U.S., according to a new report from Bluefield Research.

The recent report, "U.S. Private Water Utilities: Drivers, Competitive Landscape and Acquisition Trends, 2019," provides in-depth analysis of investor-owned water utility strategies and of 517 water and wastewater system acquisitions from 2015 through 2018, including Eversource Energy's $1.68 million (USD) for Aquarion Water, NW Natural's roll-up of smaller systems in the Pacific Northwest, and Aqua America's $4.3 billion (USD) acquisition of People Gas.

Of the 517 transactions identified by Bluefield from 2015 to 2018, 366 of them were executed by private buyers. While ushering in new market entrants and reshaping the competitive landscape, regionally, these deals also reflect growing interest in private investment in the U.S. municipal water sector from water industry outsiders.

"The consolidation of critical infrastructure services is not a new phenomenon, and current market conditions are re-reinforcing this trend," said Reese Tisdale, president of Bluefield Research. "It wasn't all that long ago, in 2001, that German electric power company RWE acquired American Water for US$7.6 billion, only to spin it out in 2008. This most recent wave of M&A feels different in that municipalities and system owners are being forced to weigh the benefits of outsourcing against owning and operating a portfolio of aging assets."

These diversified service providers now active in water are poised to gain from their proven experience with utility commissions, rate cases, customer management, and infrastructure finance. They are also going head-to-head with well-established IOUs, demonstrated by Eversource's competing bid–against SJW Group–for northeast regional IOU, Connecticut Water. Given the mounting financial, regulatory, and environmental pressures on municipal water and wastewater systems–particularly for smaller, private system owners–the steady flow of M&A is expected to continue and open the door further to new entrants.

While the municipal market, as a whole, is highly fragmented, the private share of the market is more structured. The IOU landscape is segmented among well-established frontrunners (e.g. American Water, California Water Services, Suez), regional firms (e.g. Artesian Water, Central States Water), diversified service providers (e.g. Eversource Energy, American States), and a circling group of financial investors (e.g. PGGM, Ridgewood Infrastructure, Pacolet Milliken). Private ownership of U.S. municipal water systems currently stands at 15 percent, of which approximately half is held by these IOUs, according to Bluefield's analysis.

"The market is increasingly dynamic, particularly when considering new market entrants and a broader need for rehabilitation of U.S. infrastructure," says Tisdale. "Annual capital and operating expenditures for public systems are already approaching US$60 billion and US$90 billion by the end of the decade, respectively. What is more concerning is that this does not fully account for the looming external pressures on system operators, including larger, more frequent stormwater events, algae blooms, and PFAs remediation that will heighten needs for capital, operating experience, and advanced technologies."

Underpinning this scaling interest in municipal water infrastructure investments from outsiders and insiders is a more favorable policy environment enabling acquisitions of community water and wastewater systems. Fair Market Value (FMV) policies in nine states–and pending legislation in others–are incentivizing municipalities to sell utilities based on appraised value rather than book value. Still, more than 60 percent of acquisitions are for private systems, rather than those owned by municipalities.

"There is no one answer to addressing aging water infrastructure in the U.S., including ownership, private or public," adds Tisdale. "What we are seeing through M&A and evolving ownership structures, is an indication that municipalities, utility leaders, and regulators are beginning to change their thinking."

BY WFM STAFF

JUNE 10, 2019

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## Fitch Ratings Finalizes U.S. Public Power Rating Criteria

Link to Fitch Ratings' Report(s): U.S. Public Power Rating Criteria

Fitch Ratings-New York-03 April 2019: Fitch Ratings has published the final, revised version of its sector-specific criteria report titled "U.S. Public Power Rating Criteria". This follows Fitch's June 14, 2018 exposure draft outlining various proposed changes to the criteria for which Fitch sought market feedback. Fitch's previous criteria report from May 18, 2015 and the noted exposure draft have both been retired.

Fitch has also published a special report titled "Feedback Report: U.S. Public Power Rating Criteria" that reviews the market feedback received on the noted exposure draft and Fitch's responses. Fitch made no substantive changes to its exposure draft as a result of market feedback. However, Fitch did include select changes to key rating drivers and the scenario analysis tool in the final criteria report. Primary changes to the rating criteria incorporated in the exposure draft and retained in the final revision are described below.

PRIMARY CRITERIA CHANGES

–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;
–Forward looking consideration of the impact of existing or needed capital investments that may increase financial leverage;
–Introduction of FAST, an issuer specific scenario analysis tool measuring the effect of demand stress on revenue, operating expenses, cash flow and rates.

RATINGS IMPACT

Fitch does not expect the proposed criteria revisions to trigger widespread rating changes, nor will the implementation curtail or influence normal rating migration. Within the next week, Fitch plans to publish rating action commentary to designate various ratings that could potentially be affected by the changes in the criteria as Under Criteria Observation (UCO). However, not all of the ratings designated as UCO will necessarily experience rating changes.

Rating changes will most likely reflect the criteria's heightened emphasis on leverage through the cycle, with upgrades reflecting relatively low leverage, and downgrades resulting from the recognition of higher leverage and/or elevated operating risk. In addition, Fitch also expects that debt ratings of issuers may be designated as UCO, where additional new information required under the revised criteria is currently unavailable and further analysis is necessary to assess the effect of the criteria on the rating. Overall, Fitch estimates fewer than 10% of the ratings covered by the criteria will be affected over time, with a roughly equal mix of upgrades and downgrades.

Fitch will review all of the ratings designated as UCO as soon as practical, but designation must be resolved within six months.

For more information, the full reports titled "U.S. Public Power Rating Criteria", "Feedback Report: U.S. Public Power Rating Criteria", "FAST Public Power – Fitch Analytical Stress Test V 1.1.1 and "FAST Public Power – Fitch Analytical Stress Test, Description and Model Foundation" are available at www.fitchratings.com.

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## Fitch Ratings: Updated U.S. Public Finance Tender Option Bond Criteria

Link to Fitch Ratings' Report(s): U.S. Public Finance Tender Option Bond Rating Criteria

Fitch Ratings-New York-31 May 2019: Fitch Ratings has published the following updated report: "U.S. Public Finance Tender Option Bond Rating Criteria." This report updates the prior report published on March 22, 2019. The key elements of Fitch's tender option bond rating criteria remain consistent with those of its prior criteria report.

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## Congress, It's Time to Bring Back Advance Refunding Bonds.

What can help local governments finance critical new infrastructure, help cities better-weather a recession and save local taxpayer money? It's not a miracle, nor is it a novel concept. Up until the passage of the Tax Cuts and Jobs Act in 2017, municipalities were able to use a tool known as advance refunding bonds to lower interest rates and achieve cost savings to spend on other local priorities.

Similar to a home mortgage refinancing, advance refunding bonds allowed a city, town or village to refinance outstanding bonds to take advantage of lower interest rates. Over the years, the tool helped save communities substantial amounts of local dollars. The Government Finance Officers Association (GFOA) estimates that advance refunding bonds saved state and local governments a minimum of $14.3 billion between 2012 and 2017.

In Houston, we used tax-exempt advance refunding bonds to save the city $186.6 million between 2016 and 2017 alone—the last two years the tool existed. These were useful savings — particularly in the wake of one of Houston's most devastating natural disasters — Hurricane Harvey. Not to mention unrealized savings could otherwise be used to fix deteriorating infrastructure, hire police officers or build a neighborhood park. Restoring the tax exempt status enables us to better prepare for the next disaster while meeting the growing demand for essential services in a growing city.

Advance refunding bonds also provided communities like Houston with a tool to better endure recessions. Interest rates tend to fall during economic downturns; at the same time, local property and sales tax revenues plummet for cities. These bonds would allow us to change an otherwise fixed cost when our residents and cities hit hard times.

And while we may be the fourth largest city in America, communities of all sizes—big and small—have used the tool to reach savings of at least three to five percent on their bonds. That's real savings for any community. And, that's real money for new bridges, better schools, safer communities, cleaner water and lower property taxes.

So, as Chair of NLC's Finance, Administration and Intergovernmental Relations (FAIR) Committee, I welcomed the introduction of the Investing in Our Communities Act (H.R. 2772), which would restore tax-exempt advance refunding bonds. I also applaud the Chairs of the House Municipal Finance Caucus—Congressmen Ruppersberger (D-MD-2) and Stivers (R-OH-15)—who introduced the bill earlier this month. More than ever, our communities need bipartisan, commonsense policy.

Now as local leaders, it's on us to build both awareness for this critical tool and support for H.R. 2772. Call on your members of Congress and make sure federal leaders in Washington know what bonds have built in your community.

**National League of Cities**

By NLC Staff

May 30, 2019

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## Municipal Bonds: When Full Faith And Credit Falls Flat.


**Summary**

- **With the proportion of retired pensioners and lifespans increasing across the globe, many governments face a challenging dilemma: how to raise enough tax revenues from the young to pay for the pensions promised to the retired?**
- **Pension liabilities didn't rattle US municipal bond markets much before the financial crisis a decade ago.**
- **Illinois bond ratings are already skating just one notch above "junk" status. If Illinois gets downgraded, the pain could be sharp.**


Once upon a time, US municipal bonds were generally considered less risky than corporate bonds. Backed by the full faith and credit of state governments, investors had confidence they would receive their principal plus interest without fail. Times have changed. For some states and local governments, decades of financial mismanagement and massive pension liabilities are threatening to upend the full faith and credit pledge. In this article, Franklin Templeton Fixed Income takes a look at the situation, with Illinois being an example of a particularly dire case.

As municipal bond analysts, assessing pension risks hinges partly on the willingness of elected officials to implement tangible pension reforms. Absent that, large pension obligations can significantly degrade budgets, credit quality, and eventually impair bondholders.

Continue reading.

**Franklin Templeton Fixed Income Group**

By Sheila Amoroso, Senior Vice President, Director, Municipal Bond Department; Daniel Workman, CFA, Vice President, Portfolio Manager; Jennifer Johnston, Vice President, Research Analyst; and John W. Wiley, Senior Vice President, Portfolio Manager, Franklin Templeton Fixed Income Group

May 30, 2019

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## The Risky Business of Chasing High-Yield Muni Bonds.

Investors are hungry for yield, and they appear to be satisfying that hunger with risky, high-yield municipal bond funds.

In fact, investors have poured $8 billion into funds that deal in high-yield muni bonds – or junk munis – this year, according to Refinitiv data. That's the most in nearly three decades.

"I would be worried about this," Scott Clemons, chief investment strategist at Brown Brothers Harriman, said on Yahoo Finance's "The First Trade."

"We're advising our clients to not chase yield. The trade-off of risk and return is just unappealing," Clemons said.

Even the largest Wall Street firms are hedging their bets. Goldman Sachs' $7.3 billion High Yield Municipal Fund, had about 62% of its assets in investment-grade securities by the end of April.

Falling Treasury yields, coupled with expectations for a possible interest rate cut from the Federal Reserve, have investors chasing higher returns in the lowest-rated and riskiest muni-bonds.

**Liquidity, stability, income**

So far, that bet has been paying off. According to FactSet data, high-yield munis are up 5.5% this year after outperforming stocks,Treasuries and corporate bonds in 2018.

Municipal bonds are also historically attractive to investors because they are one of the few remaining tax-shelters left.

The downside, though, is that if enough of these risky municipal projects default, those attractive yields will quickly reverse.

About 2.5% of non-investment-grade munis are currently in default, according to Municipal Market Analytics.

Clemons points out that fixed-income markets offer three main benefits to an investor's portfolio: liquidity, stability, and income.

"In this kind of interest-rate environment," Clemons said, "those benefits are fragmented. So you, as an investor, have to decide. If it's all about yield, you're going to have to give up some stability, maybe some liquidity. But if it's all about stability and liquidity, there's not a lot of yield attached to that."

**Yahoo Finance**

by Alexis Christoforous

May 28, 2019

*Alexis Christoforous is co-anchor of Yahoo Finance's "The First Trade." Follow her on Twitter @AlexisTVNews.*

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## [Place-Based Impact Investing Practitioner Briefs.]

**Abstract**

Seeking ways to maximize the social and economic returns of their place-based impact investments, foundations, CDFIs, private investors, and others are turning to collaboration. To support these efforts and facilitate lesson sharing, the Urban Institute and Mission Investors Exchange have produced a set of three practitioner briefs designed to focus on elements of place-based impact

investing that research and conversations with practitioners have identified as opportunities for knowledge exchange. Each brief presents a concept, highlights practitioner examples, and elevates lessons from the field.

**The briefs are:**

- Mapping and Assessing Local Capacities and Opportunities for Place-Based Impact Investing
- Place-Based Impact Investing Ecosystems: Building a Collaboration to Boost Your Effectiveness
- Collaborative Place-Based Impact Investing Models: Deploying Capital on the Ground Together

**The Urban Institute**

by Erika C. Poethig, Matt Onek, John Balbach, Nhadine Leung, Shena Ashley, Melanie Audette, Brett Theodos & Matthew Eldridge

May 30, 2019

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## Municipalities Are Not Rushing To The Market: Joe Mysak (Radio)

MUNIS IN FOCUS: Joe Mysak, Editor Bloomberg Brief: Municipal Market, discusses how the bond rally and trade tensions are impacting the muni market. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 05:58

Play Episode

May 31, 2019

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## Muni Yield Curve Flattens to 2007 Low.

Eric Glass, portfolio manager at AllianceBernstein, discusses the factors behind the flattening of the municipal bond yield curve and looking for infrastructure and climate change investments. He speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

**Bloomberg Markets – Muni MomentTV Shows**

May 29th, 2019, 9:20 AM PDT

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## Morningstar’s Big Move in Credit Ratings Barely Moves Needle.

**Fourth place is still way behind S&P, Moody’s and Fitch.**

Quick — name the world’s fourth-largest credit ratings company.

Most fixed-income investors can easily rattle off the so-called Big Three — S&P Global Ratings, Moody's Investors Service and Fitch Ratings, which combined represented 95.8% of all outstanding U.S. ratings at the end of 2017, according to a Securities and Exchange Commission report. But after that, the remaining sliver of the market is something of a free-for-all, with firms like A.M. Best Co., DBRS Ltd., Kroll Bond Rating Agency and Morningstar Credit Ratings carving out niches where they can serve as alternatives to the top three.

But back to fourth place. Congratulations to those who knew DBRS, formerly known as the Dominion Bond Rating Service. The Toronto-based company, created in 1976 and acquired in 2014 by the Carlyle Group and Warburg Pincus, has a sizable footprint in Canada and, to a somewhat lesser extent, the European Union.

Continue reading.

**Bloomberg Markets**

By Brian Chappatta

May 31, 2019, 4:30 AM PDT

*Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.*

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## Revenue Forecasting and the Fragility of Traditional Wisdom.

**The lesson for cities from the experiences of the past decade: Even revenue sources long considered reliable can be volatile.**

One of the most significant managerial challenges for state and local budget officers is to accurately forecast revenues and expenditures in coming years. Errors are inevitable, of course, and yet many elected officials continue to live in the hazy delusion that once they've balanced a budget based on seemingly solid forecasts, it's going to stay balanced. This, as we know all too well in hindsight, is often not the case; forecasting is as much art as science, and predicting upcoming revenues precisely can be as much attributable to luck as to intellect.

Consider the National League of Cities' annual survey conducted at the start of the Great Recession. It asked a sample of city chief financial officers: "Overall, would you say that your city is better or less able to meet financial needs in the current fiscal year than last year? In the next fiscal year compared to this fiscal year?"

The response to the survey suggested that, overall, most CFOs and their staffs were blind to an upcoming fiscal disaster despite warning signs such as the unfolding subprime mortgage crash. Over half (55 percent) responded that they expected their city would be in a better position in 2008 to meet their financial needs than in 2007. When asked the question in 2008 about their fiscal position in 2009, that percentage plummeted to just over 20 percent. No great surprise there. It's much easier for fiscal managers to make an accurate prediction of hard fiscal times when they're already dealing with them.

One element of overoptimistic thinking among budget managers as the recession began was the notion that sales taxes would continue to provide a steady flow of revenues. Nearly one in four (24 percent) of cities that collected sales taxes were confident in 2008 that 2009 would be a healthy year for their economies. In fact, state and local general tax receipts fell by $16 billion in 2009 from their 2008 levels, a decline of 3.5 percent as the recession hiked unemployment and diminished consumer spending.

But although the recession's negative impact on sales taxes should not have been the surprise it was, it's perhaps easier to understand why the decline in property values and the tax revenues based on them was so largely unforeseen, given the traditional management wisdom among the men and women responsible for keeping programs intact without the need to raise taxes.

The widely held belief is that the property tax is reliable. That' s part of the reason why many cities have long been happy to depend so heavily on their property taxes, despite the fact that citizens tend not to like them very much for understandable reasons: For one thing, in most communities the bill arrives once a year, so its size is opulently evident. Additionally, it can be painful to accept the idea that an ostensibly good thing — rising property values — only pays off when the property is sold. Up until then it's increasingly difficult to pay ever-rising levies.

Still, the benefits of property taxes to cities have long made them an attractive source of revenue. For one thing, when property values drop, tax receipts don't immediately plummet –they take some time to find a new equilibrium point. Further, property is immovable. When taxes on your home go up, you can't loft it into the air and move it to a lower-tax community. Unlike the volatile sales and wage taxes, the traditional thinking among budget forecasters is that the property tax can be counted on to moderate the ups and downs of other government revenues.

But logic to the contrary, it turns out that property taxes aren't necessarily and always an immutable source of revenue on which forecasters can count. Consider Albuquerque, a city that witnessed solid year-over-year increases in its property tax receipts between 2002 and 2010, from $72 million to $133.3 million — an average annual growth rate of 10 percent. Then the effects of the Great Recession on property values hit in 2011, and the year-over-year growth rate between fiscal years 2011 and 2018 didn't even keep up with inflation, averaging 1.3 percent per year.

Although the impact on Albuquerque's total budget was modest due to the city's heavier reliance on other taxes, the less-than-robust growth in the real-estate market contributed to the city's forecasts of drawing down reserves in the near term and projecting deficits for next year. As painful as that may be, Albuquerque has fared better than some cities with its property taxes: Miami also expected a typical bump in property tax revenues in 2010, but instead experienced a nearly $20 million downturn from the previous year, followed by a $37 million decline in 2011.

The lesson in all this is that elected officials and financial managers must be prepared for the notion that traditional wisdom is not immutable and that counter-cyclical devices — a robust rainy day fund remains a terrific tool — are critical parts of a well managed city.

**governing.com**

By Michael A. Pagano | Contributor

Dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago and director of UIC's Government Finance Research Center

MAY 29, 2019 AT 4:00 AM

## [Add Cyberattacks to the List of Municipal Bond Credit Risks.]

- **Baltimore ransomware attacks underscore threat: Breckinridge**
- **More than 20 ransonware attacks on municipalities this year**

Huge pension debt. Crumbling infrastructure. Climate change. Now add cyberattacks to the list of things that municipal bond investors should worry about.

The recent ransomware attack that shut down some of Baltimore's computers, the second in 15 months, underscores the growing credit risk that cyberattacks pose to states and cities, according to Breckinridge Capital Advisors. The May 7 attack on Baltimore has hobbled the city's ability to collect water bills, property taxes, and parking revenue. It also shut down the city's system to process home sales. Baltimore's general obligation bonds, like much local debt, is payable by property taxes, which makes up about half of the city's revenue.

Cyberattacks also threaten to erode public confidence in government and can suggest weak governance, wrote Alriona Costigan, a vice president at Breckinridge and Jesse Starks, the firm's chief technology officer.

"Cyberattacks can hurt issuers' reputations, evidenced by the fact that many cities and states avoid reporting them," they wrote. "However, the lack of consistent reporting of cyberattacks could leave many issuers complacent about the risks or unaware of some of their own vulnerabilities."

This month's cyberattack in Baltimore follows last year's high profile ransomware attack in Atlanta, which cost the city an estimated $17 million to fix, about 2.6% of the city's budget, according to Boston-based Breckinridge, which oversees more than $37 billion in high-grade fixed income assets. There have been at least 24 reported ransomware attacks on municipalities this year, including Greenville, North Carolina, and 46 last year, according to Moody's Investors Service.

**Smaller Targets**

A study by the Massachusetts legislature reported 26 million attempts to access the state's computers in a one-hour period between 1 a.m. and 2 a.m. on Sept. 13, Breckinridge said.

In a ransomware attack, hackers infiltrate a computer system and deploy malicious software that locks a victim's data until the owner pays a ransom. Baltimore has refused to pay a ransom of around $100,000 worth of Bitcoins. The event is unlikely to have a material effect on the city's finances and Baltimore hasn't missed a debt service payment, Moody's said May 27.

Cyberattacks could have even more harmful affects on smaller state and local governments, which have less funding for cybersecurity and may see themselves as less of a target that big cities or states.

"Ransomware criminals may see smaller school districts or towns as easier targets, as their focus on cybersecurity is less than that of larger cities such as Los Angeles, which has a cybersecurity working group in place," Costigan and Starks wrote.

Investors need to determine whether states and local governments take cybersecurity seriously as a risk and issuers need to assess and share information about the defenses in place against cyberattacks, according to Breckinridge. Investors should also evaluate a municipality's preparedness for a cyberattack by evaluating whether they have a written response plan, the size of the cybersecurity budget and the presence of cyberinsurance.

“Even the most ironclad technological and physical defenses can be breached, so preparedness for cyberattacks is important to assess as a credit issue,” Costigan and Starks wrote.

**Bloomberg Cybersecurity**

By Martin Z Braun

May 29, 2019, 10:29 AM PDT

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## The Baltimore Cyberattack Highlights Hackers' New Tactics.

**Ransomware attacks are becoming more sophisticated and taking longer for governments to recover from. Some of Baltimore’s services have been down for nearly a month.**

SPEED READ:

- Baltimore suffered a ransomware attack nearly a month ago and has yet to restore critical networks.
- The city refuses to pay the hackers and is asking the federal government for financial aid.
- Ransomware attacks on governments are on the rise — and becoming more sophisticated.

Cyberattacks on local governments are on the rise — and they’re becoming more sophisticated. The latest case in Baltimore, where the city is still struggling to restore critical networks more than three weeks after being hacked, could be a harbinger of things to come.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | MAY 30, 2019 AT 5:21 PM

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## National P3 Update: Higher Education and Social Infrastructure

We have written about how the public-private partnership (P3) project delivery model can and should be used to meet infrastructure needs. Because P3s are constantly being considered and tested all over the country, we wanted to provide an update on the status of these projects so that interested stakeholders can easily keep an eye on the market overall. Our first installment of the National P3 Update will focus on higher education and social infrastructure P3s. We will issue more updates on these projects, as well as updates on projects in other industry sectors.

Travis County Civil and Family Courts Facility P3: The Travis County Courthouse P3 reached financial close on May 9, 2019. The facility, located in Austin, Texas, is a 430,000 square foot civil and family court facility that is set to be complete in 2022.

Santa Rosa Junior College Student Housing P3: Santa Rosa Junior College selected Servitas as its preferred bidder for its student housing P3. The project is to design, build, finance, operate, and maintain a 360-student housing facility. The other shortlisted developers were Greystar and the Michaels Organization.

Vanderbilt University Student Housing: Vanderbilt selected Lendlease as its preferred bidder to design, built, operate, and maintain a graduate and professional student housing village.

Miami-Dade County Courthouse P3: Miami-Dade County shortlisted three respondents for its Civil and Probate Courthouse P3—teams led by Meridiam/EllisDon, Plenary, and Sacyr. The County will issue a RFP in the coming weeks, with responses due by the end of July.

California State University, Fresno Central Heating and Cooling Plant Modernization P3: Fresno State shortlisted four respondents for its Central Heating and Cooling Plant Modernization P3 in April 2019. The shortlisted teams include Bulldog Energy Alliance, Bulldog Infrastructure Group, Plenary Utilities Fresno, and Victor E. Energy Partners. The project is for the design, build, finance, and maintenance of a central utility plant, ancillary infrastructure, and implementation of energy efficiency upgrades all over campus. A RFP is to be issued this fall.

Alabama Department of Corrections P3: The Alabama Department of Corrections is analyzing five responses to its Request for Expressions of Interest for the construction of three new prison facilities. The respondents were tasked with identifying the scope of the agreement. A RFQ will be issued this quarter, with a RFP to be issued in the fall.

Dartmouth Heating P3: Dartmouth College received responses to the Request for Qualifications for its Heating Plant and Distribution System project in late April. Three of the teams that submitted were Fengate/Ameresco/WorleyParsons, Kiewit/Enwave, and Merdiiam/ENGIE North America. The project is to design, build, finance, operate and maintain a thermal generation facility that will be powered by a renewable fuel source, as well as a new hot water distribution system. The shortlist is expected to come out in June, with issuance of a RFP in September and selection in 2020.

City of Los Angeles Civic Center P3: The City of Los Angeles issued a Request for Qualifications for the Los Angeles Civic Center P3 on April 2, 2019. Responses are due on May 28, 2019. The project is a design, build, finance, operate, and maintain that will include a government office facility, childcare center, and conference center. The city expects to issue a RFP at the end of 2019, with responses due in the beginning of 2020 and award and execution of a project agreement at the end of 2020.

by Elise Holtzman

Friday, May 24, 2019



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## P3 Trends: Rise in Private Placement Financing of Mid-Size P3s

In the last twelve months, four national public-private partnerships ("P3s") have been financed in the U.S. private placement market, accounting for over $800 million in project cost financing. While there has been a shift towards private placement investors as a P3 financing source, the market activity in the last year has confirmed investor appetite in P3s, particularly those with availability payment-based compensation structures.

Private placements are securities offerings to limited numbers of sophisticated investors. These offerings are exempt from registration under the U.S. Securities Act of 1933. Conservative, long-term investors, such as insurance companies and pension funds, tend to dominate the U.S. market. While private activity bonds and TIFIA loans present cheaper financing options, they are not available as financing sources across certain asset classes, including social infrastructure and smart city initiatives. Many features of the traditional private placement market align with financing features of the P3 market. For example, private placement investors favor long-term debt, with tenors of 30 years or more depending on the project, far exceeding the short tenors available in the bank finance market. In addition, as private placements in the P3 context are typically closed with a small number of investors, the project benefits from more flexibility in financing terms and, if needed, a simplified process for amendments and waivers over the life of the project, as compared to similarly-tenored bond financings. Finally, because of their long tenors and fixed credit spreads, private placements minimize project refinancing risk.

In addition, private placements offer significant benefits during the proposal phase for both the public and the private sectors. With credit spreads typically fixed at the time of the financial proposal, private placement financings are beneficial from a grantor's perspective as credit spread risk protection between the time of proposal and financial close is not necessary. In addition, bid costs, particularly as compared to bond financing solutions, tend to be lower with private placement financing solutions, and there are no public rating requirements (even though a least one public rating is customary.)

The rise in P3 private placement offerings is a particularly strong trend when considered in the context activity in the U.S. private placement market. In the first quarter of 2019, the dollar volume of private placements has fallen by 30% as compared to the same period last year. With more infrastructure projects on the horizon that do not benefit from federal financing alternatives, such as Dartmouth's proposed biomass energy heating facility and student housing project, as well as Fresno State's proposed heating and cooling plant.

by Andrej Micovic & Albert E. Dotson, Jr.

Thursday, May 30, 2019



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## Drinking Water Is Staying in Pipes Longer, and That's a Problem.

**Shrinking cities can have their drinking water sit in pipes longer than desired, leading to high levels of metals, bacterial growth, and other problems.**

The geographic locations where Americans live are shifting in ways that can negatively affect the quality of their drinking water.

Cities that experience long-term, persistent population decline are called shrinking cities. Although shrinking cities exist across the United States, they are concentrated in the American Rust Belt and Northeast. Urban shrinkage can be bad for drinking water in two ways: through aging infrastructure and reduced water demand.

Continue reading.

CITY LAB

MAY 31, 2019

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## The Danger of a $2 Trillion Infrastructure Promise.

Another Infrastructure Week (the real one) just wrapped up, and after seven years many of the core themes remain the same. Crumbling roads and bridges. Desperate calls for new investment. A high national price tag for repair and revitalization. Little progress.

What makes this year different is a $2 trillion announcement and the continued drama of White House and Congressional meetings to motivate action. But are major media announcements what the country needs to reform how we invest in infrastructure?

The answer is no. Federal leaders need to recognize and reward places that take the initiative on infrastructure investment. Otherwise, there will be a continued lack of action. Instead of big dollar announcements, setting expectations that proactive state and local investments will be rewarded—for example, with matching funds—can have far more immediate value.

Continue reading.

**The Brookings Institute**

by Shalini Vajjhala

Tuesday, May 28, 2019

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## Mayors Appear Increasingly Concerned About Infrastructure.

**More than half of mayors discussed it during their annual State of the City addresses this year — double the number four years ago.**

SPEED READ:

- Infrastructure was the second-most popular topic in mayors' annual addresses this year.
- Twice as many talked about infrastructure than in 2016.
- On the federal level, prospects for an infrastructure package have dimmed.

As the prospects for a federal infrastructure package this year become vanishingly thin, mayors are becoming more concerned about infrastructure in their own cities.

More than half of mayors (57 percent) discussed infrastructure at length during their annual State of the City addresses this year, according to a new report by the National League of Cities (NLC). That made it the second-most popular topic for the second year in a row, trailing only economic development.

It's no surprise that infrastructure ranks high among mayors' concerns. After all, there aren't many problems more commonly associated with local government than potholes and leaky pipes. But

mayors are talking about it more often than in recent years. Only 31 percent of mayors discussed infrastructure in their annual speeches in 2016, climbing to 48 percent in 2017 and reaching roughly 60 percent in the last two years, the NLC noted.
“Infrastructure improvements are often not all that visible to the general public. They don’t typically garner a great deal of attention — though their failure certainly does,” Mayor Patrick Madden of Troy, N.Y., told residents. “Nonetheless, they are essential to preserve our assets and ensure the continued reliability of services and quality of life to our residents.”

More Than Roads

The most popular infrastructure topics in the mayoral addresses were roads, streets and signs. But mayors also highlighted their work in other areas.

Roughly a third of them mentioned water infrastructure, pedestrian facilities or infrastructure spending. Nearly a quarter mentioned public transit.

Topics that are closely related to infrastructure were popular, too: 63 percent of mayors mentioned parks and recreation, while 41 percent discussed energy and the environment, according to the report.

In Niagara Falls, N.Y., for example, Mayor Paul Dyster pushed for streetscapes that accommodate all kinds of users — not just auto traffic.

“Having a Complete Streets plan recognizes that our streets belong to everyone — pedestrians and cyclists as well as motorists — and so [it] enhances safety and improves aesthetic appeal and the quality of life in our neighborhoods,” he said in his annual address.

Infrastructure Problems

Mayors gathered in Washington, D.C., last week to discuss the report and how they’re handling infrastructure in their cities.

Mayor Lily Mei of Fremont, Calif., said her town is trying to prepare for the arrival of a new Facebook campus and the strain it will put on local roads. At the same time, the city is working with the school district to encourage students to walk and take alternative modes of transportation to school.

“If you want the students to be able to take public transportation, it requires conscientious programs, such as giving them bus passes [and] teaching them how to ride,” she said.

For Mayor Karen Freeman-Wilson of Gary, Ind., one of the biggest infrastructure challenges is the “transformation of public housing.” The housing authority there tore down 500 units in the last six months, as demand for them waned and the apartments fell into disrepair. But the condition of the remaining units is still a concern, she says. When she gets complaints, she not only visits the units herself, she insists that the director of the housing authority join her.

“I want him to see — I want his managers to understand — that it’s important that people not only have a roof over their heads, but they have a place that they can call home,” she said.

In the suburban Florida community of Miramar, near Miami, Mayor Wayne Messam said he is concerned about the impacts of climate change and sea level rise.

“Many South Florida communities have to elevate the streets. We have to fortify our utility systems.

Currently right now in Miramar, we're spending over a hundred million dollars in our infrastructure to improve our water distribution systems," he said.

That White House Meeting

The mayors shared their infrastructure concerns a day after a White House meeting on infrastructure ended abruptly. President Donald Trump left the room after just a few minutes of meeting with House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer, both Democrats.

The trio had planned to talk about how to pay for a $2 trillion infrastructure plan, but the prospects of that happening during Trump's first term have now all but evaporated.

The mayors said their work would have to continue, despite the federal inaction.

"While some people are taking a pause," said Mei, the Fremont mayor, "we can't just sit there and wait for the action to happen."

GOVERNING.COM

BY DANIEL C. VOCK | MAY 28, 2019 AT 9:46 AM

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## Where's the Greenium?

This study investigates whether investors are willing to trade-off wealth for societal benefits. We take advantage of unique institutional features of the municipal securities market to provide insight into this question. Since 2013, over $23 billion Green Bonds have been issued to fund eco-friendly projects. Comparing Green securities to nearly identical securities issued for non-Green purposes by the same issuers on the same day, we observe economically identical pricing for Green and non-Green issues. In contrast to a number of recent theoretical and experimental studies, we find that in real market settings investors appear entirely unwilling to forgo wealth to invest in environmentally sustainable projects. When risk and payoffs are held constant, municipal investors view Green and non-Green securities by the same issuer as almost exact substitutes. Thus, the "greenium" is essentially zero.

Download the Study.

**Stanford Graduate School of Business**

By David F. Larcker, Edward M. Watts

February 22,2019

Working Paper No. 3766

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## Fitch Rtgs: April Revenue Positive for US States; Sustainability Unclear

**Fitch Ratings-New York-23 May 2019:** US states' revenue data through the key tax collection month of April indicate generally positive results for widely varying reasons, but continued revenue volatility brings into question the sustainability of the positive trend, says Fitch Ratings. The December 2017 federal Tax Cuts and Jobs Act (TCJA) contributed to observed volatility, but other federal actions, namely the US Supreme Court's Wayfair decision, likely played a role as well. Revenue volatility will not generally affect ratings in the short term but it does make revenue forecasting more complex and challenges states' ability to manage their budgets.

April 15 is the tax filing deadline for nearly all states. Of the 32 states reporting monthly revenues through April and reviewed by Fitch, 31 indicate yoy growth. The median growth rate is 6.3%, consistent with last year's trend. Personal income tax (PIT) results remain a key driver. State PIT collections rebounded in April from January's weakness. The median change in PIT revenue accelerated from a 1% yoy decline through January, with 34 states reporting, to 5.7% growth through April, with 28 states reporting.

While very few states reported details, Fitch believes non-withholding PIT collections are a key driver in the stronger April performance. Connecticut, Massachusetts, Montana and Virginia reported withholding versus non-withholding results and, in all four, trends in withholding collections were relatively consistent between January and April but the pace for non-withholding collections improved sharply in April.

Continue reading.

23 MAY 2019 02:04 PM ET

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## Fitch Webinar: U.S. State & Local Pension Investments - Concerns Grow with Riskier Allocations, Lower Returns

**Now Available On-Demand**

Fitch's webinar discusses our recent report on U.S. state and local pension investment portfolios. We discuss the trend of public pension plans increasing their investment allocations in riskier asset classes over the past two economic cycles, raising their potential volatility and exposing participating governments to higher funding risks, including potentially higher contributions.

Register for the Webinar.

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## Why Patient Consumerism Will Further Define U.S. Not-For-Profit Healthcare.

The metamorphosis of U.S. not-for-profit healthcare into a more consumer-driven and population-health focused model will continue. No one knows for sure what change or challenges lie ahead, but as Heraclitus said around 500 BC, '*Change is the Only Constant*'.

**Non-Traditional Entrants**

Non-traditional competitive entrants aiming to design healthcare around the consumer began in earnest two decades with the arrival of WebMD, though it has reached a crescendo of late with

Amazon, Apple and Haven now leaving their mark. “Consumerism” is no longer a new buzzword for not-for-profit healthcare but rather a concept that will radically overhaul healthcare delivery over the longer term.

The inexorable rise of consumerism will result in a more competitive operating environment across the acuity spectrum, particularly on the front-end where non-traditional competitors will get between more traditional providers and their patient at the earliest possible stage. A successful response to this will either require significant rethinking of the entire patient experience and care re-design around the consumer versus “the system”, or at the very least, some level of partnership that might reduce capital and technological spending, but which has the impact of resulting in a “half a loaf is better than none” strategy.

**Legislative Changes**

The legislative environment has also changed immeasurably for not-for-profit healthcare. The political debate that led to the passage of the Affordable Care Act (ACA) a few years ago has come full circle, with many prominent Democratic presidential hopefuls now espousing a “Medicare-fo--All” approach. While “Medicare-for-All” has a very low likelihood of happening, it would be a significant net negative for rated not-for-profit hospitals. Realistically, ‘a “repair and replace” of the ACA is more likely with public option really dictating how it is ultimately designed.

If constructed as an independent quasi-governmental authority where hospitals could negotiate rates and terms, this could expand coverage considerably to many patients who would then have insurance that pays at something close to commercial rates. Conversely, if public option prefers an add-on to Medicare, this could have the possibility of being a “back door” to Medicare-for-all.

**Conclusion**

Change and challenge lie ahead for not-for-profit hospitals and health systems. Despite recent heavy headwinds, the non-profit healthcare sector has historically been successful over an extended period of time—through ups, downs, and through constant change. Here’s to the next twenty years!

**whyforum.com**

by Kevin Holloran

May 21, 2019

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## Muni-Junk Titan Nuveen Starts Fund to Take Advantage of Defaults.

- **Nuveen is among the biggest investors in high-yield muni bonds**
- **Closed-end fund prospectus registered Thursday with the SEC**

Nuveen, a perennial bull on risky municipal debt, is planning a new fund to invest in state and local government bonds in distress, default or in bankruptcy, according to a securities filing.

Nuveen’s Municipal High Yield & Special Situations Fund, a closed-end fund, will also invest in securities with complex structures that would render them unsuitable for certain investors, according to a preliminary prospectus filed Thursday with the U.S. Securities and Exchange Commission.

“Special situations municipal securities, in particular, offer complexity risk premiums (stemming from the work-out expertise required to negotiate security improvements, including rate covenants, reserve funds and other security structure enhancements), which in turn may create significant investment opportunity for the Fund,” Nuveen said in the filing.

Nuveen’s move comes as investors including Goldman Sachs Group Inc. and Knighthead Capital Management are wagering there’s a coming wave of defaults in the municipal-bond market as the economic cycle turns and distressed cities and speculative projects have trouble paying back loans.

Nuveen has led a charge of investors into riskier municipal bonds to finance shopping malls, refineries, charter schools, assisted living centers and waste-to-energy facilities. Nuveen, which runs a $19.5 billion high-yield municipal bond fund, is the largest investor in Virgin Trains USA — a new privately-operated railroad that runs from Miami to West Palm Beach and is expanding to Orlando. It also owns debt sold for the American Dream shopping mall and indoor amusement park in New Jersey’s Meadowlands.

Demand for high-yield muni debt, coupled with a lack of new supply, has driven the sector to a 5.5% return this year, according to the Bloomberg Barclays index.

Nuveen spokeswoman Kristyna Munoz declined to comment, citing a quiet period between the filing of the registration and the initial public offering of the shares.

The fund will invest 65% of assets in unrated bonds or those with grades of BBB or lower and will use borrowed money to buy bonds. The fund will be operated as an “interval fund,” a type of investment company that periodically offers to repurchase its shares from shareholders rather than trading in the secondary market.

Still, it may be hard for the fund to put money to work as default rates are much lower than the corporate or sovereign bond markets. From 2007 through 2016, a key default rate on municipal bonds graded by Moody’s Investors Service was 0.15%, compared with 6.92% for corporate debt.

**Bloomberg**

By Martin Z Braun

May 24, 2019, 9:53 AM PDT

*— With assistance by Amanda Albright*

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## High-Yield Munis Outperform Fixed Income in 2019.

John Carney, head of municipal strategy at BlackRock, discusses the factors behind the strength of the high-yield municipal bond market. He speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

**Bloomberg Markets – Muni MomentTV Shows**

May 22nd, 2019, 9:43 AM PDT

## Wall Street Bankers, Muni Buyers Welcome Airport Building Boom.

- **Dallas Fort Worth is latest to unveil big expansion plan**
- **Airport revenue bond sales total $3.8 billion this year so far**

Flyers aren't the only ones benefiting from efforts at U.S. airports to make themselves bigger and better. The $3.8 trillion municipal-bond market, desperate for new bond deals, is reaping gains from the billion-dollar revamps.

The Dallas Fort Worth International Airport, the nation's fourth busiest, is the latest to announce an expansion, saying it intends to spend as much as $3.5 billion for a new terminal and other projects. Kansas City International and Chicago O'Hare International Airports have also kicked off big construction plans to keep up with the growing volume of passengers.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

May 21, 2019, 10:37 AM PDT

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## Health-Care Munis Gobbled Up in Yield-Starved 'Feeding Frenzy'

- **Oversubscribed sales help lower issuers' borrowing costs**
- **Muni market has seen just $7 billion in health-care bonds**

Tom Casey, senior portfolio manager at Mellon Investments Corp., likes health-care bonds. The problem is that everyone else in the $3.8 trillion municipal-bond market does too.

That's because the hospital and health-care sector often features mid- to lower-rated deals that can offer investors some additional yield — something that is in high demand amid an era of low interest rates. The billions of dollars that have flooded the state and local debt market in 2019 have only heightened that craving.

"The inability to access deals which are, in theory, attractive is extraordinarily difficult," said Casey, who helps manage $25 billion in municipals at Mellon. "That's a trend that has been frustrating as an investor."

While the dynamic may irk buyers, health-care and hospital borrowers have scored lower costs thanks to the strong demand for their debt. Atrius Health, a nonprofit medical group in Massachusetts, borrowed $137 million in tax-exempt municipal bonds for the first time this month and didn't have to make any concessions on the deal, said Brian Wynne, head of public finance at Morgan Stanley, the underwriter on the deal.

Wynne said bankers met with more than 40 investors to discuss the offering. It ended up "significantly" oversubscribed, helping to lower yields by about 25 basis points by the time it priced, he said.

The securities also gained in the secondary market, a signal of strong demand. Debt maturing in 2049 traded at 104 cents on the dollar on May 16, higher than its initial price of 101.2 cents on the dollar.

Also adding to the "food fight" for health-care bonds is the changing capital needs of the industry, said Karleen Strayer, head of municipal research at Wilmington Trust. Health-care companies have become more focused on providing outpatient care and are reluctant to sell debt to build inpatient facilities. That's made new securities even more scarce, she said.

Hospital revenue bond issuance of about $7 billion this year is on pace to fall short of last year's $20.7 billion of total sales, according to data compiled by Bloomberg.

"Because the supply is so tight, every time a health-care deal comes to market, there seems to be a whole lot of interest in it," Strayer said.

The "feeding frenzy" for health-care debt isn't likely to ease anytime soon, given the amount of cash pouring into municipal-bond mutual funds, especially those focused on high-yield debt, Casey said. Such funds notched their 19th straight week of inflows last week, according to Refinitiv's Lipper US Fund Flows data.

"It doesn't appear, based on what we've seen, that those flows will abate anytime in the near future," he said.

**Bloomberg Markets**

By Amanda Albright

May 20, 2019, 10:30 AM PDT

*— With assistance by Sowjana Sivaloganathan*

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## Biggest Muni Junk-Bond Fund Plows In as Puerto Rico Debt Rallies.

- **Nuveen's fund held $824 million of island debt in April**
- **Firm buys Puerto Rico debt as island bonds gain 9% this year**

The biggest buyer of muni junk bonds is big on Puerto Rico.

Nuveen's $19.5 billion High Yield Municipal Bond Fund, the largest focused on riskier state and local government securities, boosted its stake in debt sold by the bankrupt U.S. territory to $824 million as of April 30, up from $456 million at the end of March and zero in July, according to data compiled by Bloomberg. The company's Short Duration High Yield Municipal Bond Fund also increased its holdings.

Continue reading.

**Bloomberg Markets**

By Michelle Kaske

May 22, 2019, 6:41 AM PDT

## The Only 2 States That Can't Afford a Recession.

**SPEED READ:**

- **Moody’s Investors Service concludes that Illinois and New Jersey are least-prepared to weather the next recession.**
- **The report is based on savings, pension risks and state revenues.**
- **Illinois has enough savings to cover a few months; New Jersey even less.**

The chronic budget-balancing struggles of Illinois and New Jersey since the Great Recession have earned them a dubious distinction this week: They are the only two states not prepared to weather the next recession.

That was the assessment from Moody’s Investors Service, which measured how drastically each state’s revenue was likely to drop during a mild recession and whether the state had budget reserves or other funds available to help cover the gap. The analysis also evaluated what would happen to public pension funds if a recession leads to a loss of the investment assets that pay benefits.

When it comes to pension debt, Illinois has more than six times the size of its annual revenue, while New Jersey’s is more than triple, according to Moody’s. Illinois has enough savings to cover a few months of revenue declines, but New Jersey’s would cover even less. (Louisiana, New York and Pennsylvania also have slim-to-no reserves.)

Illinois Gov. J.B. Pritzker is under pressure to close a billion-dollar budget gap and address $133.5 billion in unfunded pension liabilities. While his plan to eliminate the state’s flat income tax in favor of a progressive structure is aimed at addressing these two problems, it would also make the state’s tax revenue more volatile and susceptible to declines during a recession.

New Jersey Gov. Phil Murphy is advocating a so-called millionaire’s tax to help his state’s chronic budget woes. But legislative leaders say it won’t pass. State Treasurer Elizabeth Maher Muoio, who has advocated for the millionaire’s tax, issued a statement in response to the Moody’s report and called on the legislature to stop “punting on its responsibilities” to bolster budget reserves.

“While our projected surplus is certainly better than the far-too-risky position New Jersey had become accustomed to in recent years,” she said, “we are still far behind most states when it comes to being adequately positioned to weather a future economic downturn.”

The findings are an update from the first report of this kind that Moody’s conducted three years ago. That report, which did not include pension risk and only studied the 20 most populous states, found that California and Illinois were the least-prepared.

California has since added to its savings and is now rated by Moody’s as moderately prepared, meaning it has enough in reserves and other financial flexibility to weather a recession with mild adjustments, such as spending cuts.

GOVERNING.COM

BY LIZ FARMER | MAY 24, 2019 AT 4:00 AM

## 5 Questions Colleges Should Ask Before Engaging in a Public-Private Partnership.

***More institutions are looking to these deals for projects central to academics, raising new questions for their oversight and objectives.***

Public-private partnerships (P3s), or the practice of sharing responsibility for providing a good or service with a for-profit company, are not new to higher education. Colleges have long outsourced elements such as food and laundry services, bookstores, custodial work and building construction.

In recent years, however, those partnerships have expanded to include academics and other pieces of the student experience that traditionally have been closely held, including online education, recruitment and even immersive learning experiences.

Such partnerships, however, involve more risk and “a level of skill set and competency to be able to both negotiate and to start up and manage that many universities are not set up or haven’t built themselves up to be able to address,” said Michelle Marks, vice president for academic innovation and new ventures at George Mason University, during a conference on the topic hosted there last week. “The reality today is that we can’t do it alone.”

Colleges are looking to P3s to help them quickly and nimbly respond to the range of headwinds reshaping the sector, among them: employers demanding more and different types of skills from graduates, the need to offer a wider range of credentials, and growing financial pressures.

In a survey of 249 college executives by The Chronicle of Higher Education in conjunction with the conference, the majority of respondents (83%) said their institutions are partnering more with private firms. While more than half (53%) are doing so on campus infrastructure projects, others are using them to outsource online programs (42%), student housing (39%) and predictive analytics (31%). Colleges are drawn to these companies primarily for their specialized skills, access to investment capital and the ability to quickly bring a project to market, respondents said.

“We have seen a change in the appetite of the governing boards to go into these public-private partnerships,” said Michael Amiridis, chancellor of the University of Illinois at Chicago (UIC). “That was not necessarily the case 20 years ago.”

But colleges considering a P3 should be mindful that the arrangement is not one size fits all, panelists said during one session. They shared lessons learned from their P3s and advised institutions on what to consider before striking the deal.

### Do you need a private partner?

Some P3s are sought after from the start and others are borne from necessity. The latter was the case for Metropolitan State University of Denver, which went over budget on its Aerospace and Engineering Science Building and needed help fitting out one floor. The solution, said Janine Davidson, the university’s president, was to lease the space out to companies in the aerospace and engineering fields, requiring them to offer internships and other hands-on learning for students.

“It’s not just renting out space, like a coffee shop,” she said, adding that the situation must be “a win-win” for the university and the partner.

Additionally, institutions should be able to clearly articulate the P3’s value proposition. “Why are we better off having a partner than doing what we are doing on our own?" Amiridis asked. Beyond financial support, he added, the arrangement must safeguard or enhance a college's core values, including affordability and access, academic freedom and the integrity and quality of its processes.

It should not, however, be redundant with its core competencies. He noted that The Ohio State University, which has an energy-management P3, has done a "fantastic job" explaining how that service is not a core offering of a university and thus a good candidate for such a deal.

**Are core values preserved?**

The university must also ensure the P3 enhances the student experience, panelists said. For instance, a P3 allowed Georgia State University to build a student housing project with about 300 more beds than it would have otherwise, and more quickly, said its President Mark Becker. The university, where 59% of undergraduates are Pell Grant-eligible, wanted to ensure the housing remained affordable to students and that they couldn't tell another entity owned the building.

"We fill these up, we market it, it's our reputation," Becker said. "It would be of no use to us to have a 1,100-bed facility that our students couldn't afford to live in."

Another of Metropolitan State's P3s, a commercial hotel connected with its academic hospitality program but run by a third-party company, was designed to direct a portion of its profits to the university's foundation to fund scholarships and other student support. The program raised $2 million in the first three years, Davidson said, well above the $500,000 initially expected from the first five to 10 years.

"The fact that we had a partner that was interested in doing something philanthropic was a total win," she said.

Concerns over who has control of what in a P3 are particularly relevant for universities, which historically have had a longer lifespan than the companies with which they partner.

That was true for perhaps the best-known P3 discussed on the panel, Georgia State's purchase of the 68-acre Turner Field site with Atlanta-based developer Carter to build private student housing, market-rate multifamily units and retail in addition to refitting the stadium.

"We said, 'Look, in 100 years you're probably not going to be here,'" whether they go under, get bought out or merge, Becker said. "We're going to be here in 100 years."

The same is true for deals with education technology companies given the trend of consolidation among them. "Many of the contracts don't work for us," he said, because the university doesn't want to give up control of its content. Plus, he added, "We don't know whether (they're) going to be in business in five years, 10 years or not."

**What is going to change?**

Avoiding duplication or redundancy is important, the panelists advised. "What process are you going to change, what are you going to stop doing that you've been doing for a long time because it's no longer necessary on this new platform?" Becker said, in the case of a technology partnership.

Davidson encouraged institutions to use pilots to ease in risk-averse stakeholders. Learning from efforts by peer institutions can also be helpful.

"One of my first questions to everybody is, 'What's the norm?'" she said. "Not that I want to jump on the norm, but if I'm going to deviate I'll do it out of conviction and not out of ignorance."

Ultimately, permission to think beyond rules, laws and conventions needs to come from the top, Davidson said.

The right legal support can also help. "You want a lawyer who sees her or his job as 'You tell me what you want to get done and I'll figure out a way to do it legally,'" Becker said, whether that's changing the law, obtaining a waiver or enduring a long wait to carry out some or all of the project.

"Once you start having those successes," he continued, "other people who have historically been risk-averse and lived in their lanes want to be part of the next big thing."

**Who will be the point person?**

P3s run the risk of consuming small institutions and slowing down operations at larger ones, Amiridis said. For that reason, placing someone in a role akin to a project manager is important. At UIC, a vice chancellor for innovation manages the P3 relationship and engages the rest of the university, he said.

Georgia State, meanwhile, spreads that responsibility across its vice presidents, Becker said; for instance, a partnership for online program management would fall under the purview of the senior vice president for academic affairs. The university's chief legal counsel works across the board to engage stakeholders and negotiate contracts.

George Mason created a separate position and office to run point on partnerships. That person became Marks, who shifted from her role as vice provost for academic affairs to lead the Office of Academic Innovation and New Ventures, which sits within the provost's office.

**How will you engage the partner?**

The outside partner in a P3 is, understandably, looking to profit from the venture. In that way, Becker said, it helped the Turner Field deal that two members of the foundation's board were experts in such projects and could "have a conversation of equals in the real estate business" with the partner. "What we got for free would have cost us $3 million to $5 million in consulting fees," he said.

Evaluating potential partners' track records and whether they are interested in a long-term relationship is also important, Amiridis said. For him, that means meeting face-to-face with that firm's leaders to learn more about why they are interested in such an arrangement and to ensure their missions are aligned.

In a P3, he said, "we change our role from being owners and managers of projects to managing relationships and managing contracts," he said. "It's two different sets of skills."

And while the shape and language of a P3 contract is critical to establishing purview and accountability, it can only protect against so much. "The glue in the system is the relationships," Davidson said. "We have tight relationships with these folks and where we didn't have a tight relationship, we had to tighten it up."

**Education Dive**

by Hallie Busta

May 7, 2019

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## [S&P Extra Credit: Quarterly Credit Conditions.]

This week on Extra Credit Lisa Schroeer talks to Jane Ridley and Chris Morgan about our anticipated U.S. growth and what regional variations we can expect. Hear from Jane on broader U.S. and regional trends and then deep dive with Chris on what's behind the faster growing regions.

Listen to Audio

May 20, 2019

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## S&P ESG Industry Report Card: Health Care

Social factors are prevalent considerations in our analysis of health care companies because they often play a crucial role for the communities they serve and derive a portion of their revenue from the government.

Continue Reading

May 21, 2019

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## Municipal Bonds That Offer the Ultimate Safe Investment.

Everything is bigger in Texas—including a school endowment.

The Texas Permanent School Fund, a 165-year-old state agency, is one of the jewels of the $3.9 trillion municipal bond market. The fund backs $79.1 billion of debt from more than 800 school districts statewide, making it a sizable presence in the muni market.

With triple-A ratings from Moody's Investors Service and Standard & Poor's, the school fund is one the most secure credits in munis—or in any debt market—thanks to a large asset base that totaled $44 billion in August 2018.

While most of its assets now consist of financial investments like stocks, bonds, hedge funds, and private equity, its wealth largely originated from mineral rights, including what turned out to be valuable offshore oil fields in the Gulf of Mexico.

Continue reading.

**Barron's**

By Andrew Bary

May 24, 2019 9:06 p.m. ET

## Puerto Rico's Bankruptcy Case Casts a Shadow on Billions in Municipal Bonds.

It might come as a surprise that about 10% of the Chicago Board of Education's long-term debt is rated investment grade, just two years after a budget shortfall threatened to close schools early.

Yet the school district has three series of bonds that are rated 'A' by Fitch—for now, at least. That is 7 notches above its other debt, which is solidly junk-rated at BB-. The investment-grade debt was issued in the form of special-revenue bonds, which are structured to provide bondholders with more security and higher recoveries in case of a bankruptcy.

Now those bonds' ratings are being reviewed for a potential downgrade, after a recent appellate court decision raised questions about the special status of special-revenue bonds. And at least two credit-ratings firms are considering downgrading billions of dollars in debt because of the court ruling, which is the first time an appellate court has addressed the issue.

Continue reading.

**Barron's**

By Alexandra Scaggs

Updated May 23, 2019 9:48 a.m. ET

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## Charts of the Week: Transportation infrastructure

This past week marked yet another "Infrastructure Week," per the White House, yet a $2 trillion concept between the Trump administration and House Democrats foundered due to contention between the president and Democratic leaders. Meanwhile, Brookings experts continue to research and provide analysis on a variety of issues related to infrastructure, including roads, water, and broadband. Here is a sample of recent material focused on transportation.

US INFRASTRUCTURE SPENDING IS DECLINING

Joseph Kane and Adie Tomer from the Metropolitan Policy Program at Brookings observe that "real infrastructure spending nationally has fallen over the past decade, from $450.4 billion in 2007 to $440.5 billion in 2017," and represents about 2.5 percent of GDP. Read their piece for more findings on changes in spending on infrastructure in the U.S.

Continue reading.

**The Brookings Institute**

by Fred Dews

Friday, May 24, 2019

## [Law Review Article Critiques Local Government Public Nuisance Suits: Reed Smith]

Perhaps you recall how President Trump campaigned on behalf of "Big Luther" Strange in Alabama. Strange had been appointed by Alabama's Governor to fill the Alabama United States Senate seat vacated by Jeff Sessions when Sessions became U.S Attorney General. Trump supported Strange's effort to win election to the seat in his own right for the term to commence after the interim appointment expired. Big Luther is, indeed, big. At six feet, nine inches, he is the tallest U.S. Senator ever. But Strange lost the Republican primary to Judge Roy Moore, and then Moore went on to lose to Doug Jones.

Sometimes we forget that state attorneys general also – at least usually – had careers as working attorneys who handled the same sorts of discovery and motion issues that fill up the days of most of us. Strange was a lawyer for an important energy company (full disclosure: we represented that same company many years ago), and was once a partner at one of Alabama's preeminent law firms.

And it turns out that Strange is also an impressive legal scholar. He is the author of "A Prescription for Disaster: How Local Governments' Abuse of Public Nuisance Claims Wrongly Elevates Courts and Litigants into a Policy-making Role and Subverts the Equitable Administration of Justice," 70 South Carolina L. Rev. 517 (Spring 2019). It is a useful and good read, and it is not our aim to steal Strange's thunder. Consider our little summary an invitation to go to the article, study its citations, and follow its argument.

Strange makes the point that nuisance actions originated in criminal law, with the prosecution of such claims reserved for state or government officials seeking injunctive relief or criminal conviction for harms to the public. Strange then traces the evolution and expansion of the theory, with specific allusion to municipal suits against the gun industry for violent crimes, against the oil industry for climate change, and against banks and lenders for subprime lending practices. The last episode outlined in the historical section of the article is the opioids litigation. Strange distinguishes a state AG's parens patriae authority from local governments, which have authority to recover only for injuries suffered by the municipality/county/whatever itself. It is the latter species of action that troubles Strange.

Strange's fundamental criticism of local government actions against alleged public nuisance is that they inject litigants and courts into democratic policy-making decisions. He does not favor regulation by litigation, and warns that it implicates separation of powers concerns. Regulatory lawsuits invade legislative powers, and courts are not particularly good at such regulation. Moreover, the subject of the proposed judicial regulation will often be a nonjusticiable political question, which was committed to a coordinate government branch, eludes judicial standards, reeks of policy determinations, and creates the possibility of multifarious pronouncements by different organs of government. Legislatures and regulators possess technical expertise that courts (and juries) lack, and are also peculiarly capable of balancing cross-cutting policy interests.

There are, of course, legal doctrines that should step in and halt lawsuits that infringe upon regulatory regimes. Any reader of this blog will have bumped into dozens of posts about preemption and primary jurisdiction. Strange takes those doctrines seriously – certainly more seriously than the many rogue courts that seem to view them as inconveniences. Wyeth v. Levine is appropriately cabinned by the article. Primary jurisdiction gets the respect it deserves in this article, as does the dormant commerce clause. Strange also sets out how public nuisance suits allege damages that are not traceable to and proximately caused by the defendants' conduct – with such conduct usually being lawful under the applicable regulatory regime.

The article also makes the point that local government actions disrupt the ability of state attorneys general to bring and manage litigation arising from the same alleged conduct. The actions might be beyond the scope of local governmental authority. Even if within scope, the local government actions raise the specter of double recovery.

Aside from doctrinal barriers and practical dangers, local government suits adversely affect the administration of justice in other ways. Strange describes how the various layers of redundant suits can multiply discovery requests, enable outlier verdicts to distort the overall litigation process, and penalize defendants for conduct occurring outside the relevant jurisdiction.

Anyone who has played a role in local government nuisance litigation will recognize the force of Strange's insights. The system is messy and sometimes yields unfair results. As is always the case, there are winners and losers. Predatory plaintiff lawyers and policy-making judges seem to think the system is just fine. But Strange makes a compelling case that judicial administration is a loser, as is the regulatory function that weighs costs and benefits for society as a whole.

by Stephen J. McConnell

May 22 2019

**Reed Smith LLP**

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## ARRC Releases Recommended Fallback Language for Floating Rate Notes and Syndicated Loans.

*"It's no longer a question of if—but when—LIBOR will become unusable, yet most contracts referencing it don't adequately account for this eventuality."*

The above statement by Tom Wipf, chair of the Alternative Reference Rates Committee (the "ARRC"), summarizes the driving force behind the ARRC's release of its final recommended contractual fallback language for U.S. dollar LIBOR denominated floating rate notes ("FRN")[1] and syndicated business loans ("syndicated loans")[2] in anticipation of the phasing-out of LIBOR and the transition to a benchmark rate based on the Secured Overnight Financing Rate ("SOFR").

In making this recommendation, the ARRC intends to set forth robust fallback provisions that provide clarity and specificity upon a LIBOR cessation while also preserving the flexibility needed for any unforeseen circumstances. As this recommendation follows the publication by the International Swaps and Derivatives Association ("ISDA") for different types of derivatives contracts, the ARRC noted that it strived to align its fallback provisions with the ISDA approach as much as possible.

The recommended fallback language generally addresses the following key terms:

1. **Benchmark Transition Events**: trigger events that represent a significant shift away from LIBOR;
2. **Benchmark Replacement**: successor adjusted rate that replaces LIBOR; and
3. **Benchmark Replacement Adjustment**: the spread adjustment applied to the successor rate to preserve the economic terms of the relevant contract.

**Floating Rate Notes**

The ARRC's recommended FRN fallback language can be used in a variety of floating rate securities issued in the capital markets, such as municipal bonds, convertible debt, and other debt issuances in connection with a cessation of LIBOR. It is meant to provide a more robust waterfall for a conversion to SOFR-based rates than the historic waterfall provisions included in FRN documentation. In general, the recommended FRN fallback language provides specificity on the triggers, successor rates, and spread adjustments in an effort to eliminate ambiguity and limit the exercise of discretion by any party. The ARRC's language includes the following key terms:

- **Triggers**: Two permanent cessation triggers cover public statements from the benchmark administrator or the administrator's regulator or the central bank for the relevant currency announcing that the benchmark administrator has ceased or will cease to provide the benchmark and one pre-cessation trigger covers when the benchmark administrator's regulatory supervisor announces that the benchmark is no longer representative.
- **Benchmark Replacement**: Once a trigger event occurs, if only some tenors of LIBOR have been affected, then the interpolated value based on the nearest available benchmark tenor will be the benchmark replacement. If it is not possible to determine such an interpolated benchmark, the fallback language establishes a waterfall to determine the successor rate to be used. The waterfall for FRNs has several additional steps as compared to some of the other cash products, to account for long maturities and difficulty in amending the applicable contracts. In order to maintain consistency across asset classes, each step in the waterfall is assessed when a trigger event first occurs, without reversion back to an earlier step. The waterfall runs as follows:

– Step 1: Term SOFR + Adjustment

– Step 2: Compounded SOFR (compounded average for tenor in arrears) + Adjustment

– Alternative Step 2: Simple Average SOFR (uncompounded simpler calculation) + Adjustment

– Step 3: Relevant Governmental Body Selected Rate + Adjustment (if SOFR-based rate is discontinued)

– Step 4: ISDA Fallback Rate (the fallback rate embedded in the ISDA standard definitions) + Adjustment

– Step 5: Issuer or its Designee Selected Rate + Adjustment

"Term SOFR" will be a forward-looking term SOFR rate with various tenors, which currently does not exist.

- **Benchmark Replacement Adjustment**: To account for the difference between LIBOR, which is an unsecured term rate, and SOFR, which is a secured overnight rate, the fallback language provides for an adjustment to be included in the determination of any benchmark replacement. Correlating to the benchmark replacement waterfall outlined above, the benchmark replacement adjustment waterfall runs as follows:

Step 1: ARRC Selected Adjustment (as selected or recommended by the ARRC or other Relevant Government Body)

Step 2: ISDA Fallback Adjustment (to be used with the ISDA Fallback Rate)

Step 3: Issuer or its Designee Selected Adjustment

**Syndicated Business Loans**

The ARRC recommended two sets of fallback language for new originations of LIBOR-referenced U.S. dollar-denominated syndicated loans: the "hardwired approach" and the "amendment approach," further described below. Whereas the hardwired approach provides more clarity and certainty upfront as the specific fallbacks are built into the contract, the amendment approach, by providing a framework for negotiating a replacement rate in the future, maximizes flexibility and does not reference any rates or adjustment methodologies not yet existent. Although market participants initially may favor the amendment approach for its flexibility during the transition phase, they eventually may move to the hardwired approach to overcome operational difficulties in amending contracts in volume and the possibility of being subject to manipulation depending on the economic environment at the time of transition, as also noted by the LSTA.[3]

- **Triggers**: The same two permanent cessation triggers and the pre-cessation trigger applicable to FRNs apply to syndicated loans, but syndicated loans also have an additional "early opt-in election" trigger, which takes advantage of a syndicated loan's flexibility for parties to agree to switch to an alternative rate before LIBOR is discontinued or becomes unrepresentative.
- **Hardwired Approach**: As with FRNs, the fallback language for syndicated loans is included in the original contract so that upon a trigger event, the waterfalls for the benchmark replacements and the benchmark replacement adjustments will apply.

*Benchmark Replacements:*

– Step 1a: Term SOFR + Adjustment

– Step 1b: Next Available Term SOFR (SOFR for longest tenor that can be determined that is shorter than the applicable tenor) + Adjustment

– Step 2: Compounded SOFR +Adjustment

– Alternative Step 2: Simple Average SOFR + Adjustment

– Step 3: Borrower and Administrative Agent Selected Rate + Adjustment

*Benchmark Replacement Adjustments:*

– Step 1: ARRC Selected Adjustment

– Step 2: ISDA Fallback Adjustment

– Step 3: Borrower and Administrative Agent Selected Adjustment

- **Amendment Approach:** Instead of the predetermined waterfalls, the amendment approach provides the process and procedures for parties to agree on a benchmark replacement for LIBOR and the adjustments that should apply. Upon a trigger event, the borrower and the administrative agent may agree to select a successor rate and a spread adjustment, in each case giving due consideration to any selection or recommendation by the Federal Reserve Board, the ARRC, or any evolving or then-prevailing market convention for determining such successor rate or spread adjustment. Similar to the "early opt-in election" trigger, the amendment approach is a specific feature for loans due to the relative ease in modifying applicable agreements.

**Differences from ISDA Fallback Language**

While the two permanent cessation triggers included in the ARRC fallback language align with the fallback triggers included in ISDA's 2018 consultation,[4] the pre-cessation trigger (which permits market participants to transition to an alternative rate when the quality of the benchmark has deteriorated such that it no longer is representative of the underlying market or economic reality) does not align and could create a potential area where the ARRC's language and ISDA's language may diverge. On May 16, 2019, ISDA published a consultation[5] on the pre-cessation issue for LIBOR and certain other IBORs seeking market feedback on this pre-cessation trigger and other related issues, but it remains to be seen whether ISDA ultimately will include a similar pre-cessation trigger with the FRN and syndicated loan fallback.

Another area where the ARRC fallback diverges from the proposed ISDA fallback is the primary fallback rate. Whereas the ARRC recommended fallback language references a forward-looking term SOFR rate (which currently does not exist) as the primary fallback rate, the primary fallback rate proposed by the ISDA 2018 consultation is based on the average of SOFRs for the relevant term and compounded in arrears. Market participants should be on the lookout for ISDA's final fallback language, and to the extent it diverges from the ARRC's fallback language, market participants should consider whether to adjust the ARRC's fallback language to eliminate mismatch with any interest rate derivatives they have entered into in order to offset or hedge the floating rate exposure of the FRN or syndicated loan.

**Conclusion and Next Steps**

The ARRC recommendations offer a helpful framework for market participants to consider adopting into their agreements with appropriate modifications catered to their specific needs. Regardless of what fallback regime is followed, it is critical that market participants inventory existing agreements that could be affected by the cessation of LIBOR, understand their LIBOR exposure across relevant contracts, and develop a timeframe for amendments. Also, determining a robust fallback regime that will be used going forward will help ensure a smooth transition away from LIBOR.

As the next step, the ARRC will be releasing recommended fallback language for bilateral business loans and securitizations soon. The ARRC also expects to consult with a broad range of stakeholders on proposals for fallback language in consumer products in the future.

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Paul Hastings lawyers are actively counseling our clients on the cessation of LIBOR as well as the benefits and consequences of each fallback regime for the various products.

[1] The Alternative Reference Rates Committee, ARRC Recommendations Regarding More Robust Fallback Language for New Issuances of LIBOR Floating Rate Notes (2019), https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/FRN_Fallback_Language.pdf.

[2] The Alternative Reference Rates Committee, ARRC Recommendations Regarding More Robust Fallback Language for New Originations of LIBOR Syndicated Loans (2019), https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Syndicated_Loan_Fallback_Language.pdf.

[3] The Loan Syndications and Trading Association, LIBOR: Free Fallbacking (2019), https://www.lsta.org/news-and-resources/news/libor-free-fallbacking.

[4] International Swaps and Derivatives Association, Inc., Interbank Offered Rate (IBOR) Fallbacks for 2006 ISA Definitions – Consultation on Certain Aspects of Fallbacks for Derivatives Referencing

GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW (2018), http://assets.isda.org/media/f253b540-193/42c13663-pdf.

[5] International Swaps and Derivatives Association, Inc., Consultation on Pre-Cessation Issues for LIBOR and Certain Other Interbank Offered Rates (IBORs) (2019), https://www.isda.org/a/t6tME/Pre-cessation-issues-Consultation.pdf.

By Joyce Sophia Xu, Diona Park, Michael Baker, Scott Faga, Eugene Ferrer, Michael Spafford, Lawrence Kaplan & Daren Stanaway

May 23, 2019

**Paul Hastings LLP**

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## Risky Municipal Bonds Are on a Hot Streak.

***Funds dealing in high-yield munis have drawn $8 billion as investors search further afield for returns***

Investors seeking yield are piling into the riskiest corner of the municipal bond market at a pace not seen in decades.

They have poured $8 billion into funds that deal in high-yield muni bonds—or junk munis—this year, the most through May since at least 1992, according to Refinitiv data. Muni-bond funds overall have attracted $37 billion during that same period, the most in almost three decades.

There is “more demand than at any time in recent memory,” said Jeff Burger, a portfolio manager at Mellon Investments Corp., which oversees $25 billion in municipal investments.

Continue reading.

**The Wall Street Journal**

By Gunjan Banerji

May 27, 2019

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## Municipalities Holding Out For Feds On Infrastructure (Radio)

MUNIS IN FOCUS: Amanda Albright, Bloomberg Muni reporter, discusses money flowing into muni bond funds, stretched muni prices, dead infrastructure, and Illinois. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 05:16

Play Episode

**Bloomberg Radio**

May 24, 2019 — 8:57 AM PDT

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## SIFMA Statement on Infrastructure Financing.

Washington, D.C., May 22, 2019 – SIFMA today issued the following statement from President and CEO Kenneth E. Bentsen, Jr. on infrastructure financing:

“The challenges of our nation’s extraordinary infrastructure deficit are so complex that a single solution is not enough. Among other initiatives, SIFMA strongly believes restoring advance refunding is an essential component of funding infrastructure investment. By allowing state and local governments to reduce their debt service expenses and free up their borrowing capacity for new investments in infrastructure, this financial management tool offers a meaningful way to boost investment in and maintenance of critical public projects. The U.S. is continuing the troubling trend of underinvestment in this area and risks substantially adding to the financial burdens of state and local governments unless bi-partisan solutions are reached. We appreciate the commitment by the Administration and the Congress to infrastructure investment which will help spur job creation and economic growth.”

-30-

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

DATE:
May 22, 2019

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## North American Corporate and Municipal CUSIP Request Volume Climbs in April.

NEW YORK, NY, MAY 14, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a noteworthy increase in requests for new North American corporate and municipal debt identifiers in April.

[Read Report.]

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## [Fourth Straight Month of Muni CUSIP Volume Growth.]

“The combination of historical low interest rates with a relatively strong economy is supporting a steady volume of new security issuance activity by both corporate and municipal issuers,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “We are still seeing a good amount of month-to-month volatility in our CUSIP indicator, however, which suggests that sentiment could shift quickly in response to geopolitical and economic trends.”

[Read Press Report.]

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## [The Biggest Mistakes Cities Make in Their Quest to Be Smart.]

***The key is to care about the technology—but not too much***

The hottest trend in cities across the U.S. today is to become a “smart city,” where apps, algorithms and artificial intelligence promise to create new efficiencies and improve urban life.

It makes sense. What city wouldn’t want to be called “smart”? And what city wouldn’t want to be seen as being on the cutting edge of technology?

No wonder cities are aggressively courting technology companies to use their cities as testing grounds for smart-city technology.

But as some cities are starting to realize, getting technology is the easy part. The real challenge is figuring out how best to use it. When implemented thoughtfully, technology can be an incredibly potent tool to advance social progress. When implemented carelessly or inappropriately, however, technology can be ineffective and can even exacerbate the problems it is meant to address.

Counterintuitively, the key to leveraging technology to improve urban life is to abandon the dream of being “smart”—which prompts a narrow focus on technology that can lead cities astray—and instead strive to be “smart enough” to advance established goals

To do this, cities need to avoid three common mistakes when it comes to chasing the smart-city dream.

**Technology as the solution**

The first mistake that many cities make is to be consumed by the possibilities of technology, regardless of whether those enhanced capabilities actually dovetail with their long-term vision.

Consider autonomous vehicles, whose allure has led many cities to focus their transportation investments and policies on accommodating self-driving cars. Technologists have proposed visions of autonomous vehicles zooming through downtown without congestion—coordinating their own movements without the need even for traffic lights—leading cities to consider reducing investments in public transit, expecting that self-driving cars will make such systems obsolete.

What many cities don't realize is that the focus on self-driving cars has the potential to obstruct their efforts to overturn decades of automobile-focused development. A narrow emphasis on autonomous vehicles would come at the expense of efforts to foster walkable and bikeable neighborhoods.

If cars can travel at faster speeds and transit is neglected, people will likely respond by moving farther away from downtowns, increasing sprawl—exactly what many city planners are trying to avoid. Moreover, allowing high speeds on city streets would diminish safety, walkability and vitality. Main Streets would turn into high-speed corridors. Imagine how unpleasant it would be to eat lunch or go shopping along the side of the freeway.

Instead, cities should be driven by clear policy goals and long-term planning efforts that are independent of technology. By all means, use technology in service of those bigger goals. But don't let the excitement about self-driving cars lead to cities that are optimized for self-driving cars but unwelcoming to pedestrians, transit and vibrant public space.

A smart-enough city might instead expand public transit through self-driving shuttles that connect people to transit hubs and provide transportation to those without the ability to drive. And by calming traffic on city streets, it could create shared streets where pedestrians and cyclists are kept safe and feel comfortable.

The goal would be to use smart-city technology not to speed the adoption of autonomous vehicles, but to speed the realization of existing planning and transportation goals. Self-driving cars would be a means to that end, but not the end in itself.

**Technology as a quick fix**

The next mistake that many cities fall prey to is expecting technology to provide a quick fix to a much bigger urban problem. This is the danger of conceiving of an issue as a technology problem: It can make that problem appear artificially simple and suggest "solutions" that fail to address the right issues.

A perfect example is the effort to increase civic engagement. City governments and technologists have proposed countless platforms, social networks and apps to make politics and governance simpler and more efficient. Most notably, 311 apps allow residents to notify the government about issues like potholes or damaged street signs straight from a smartphone.

Such efforts may make some parts of government more efficient. The problem, though, is when they become a stand-in for a city's civic-engagement efforts. Politics isn't an optimization problem—being "smart" won't solve democracy.

These apps have several fundamental problems.

First, they typically lead to reports that are disproportionately from white and wealthy residents.

Second, emphasizing efficient service delivery through 311 apps diminishes people's concern for the public good by suggesting that government exists to address personal needs, as if it was a customer-service agency. Promising to quickly repair every pothole elides the reality that government has limited resources that often must be allocated to other issues and other people.

And three, the desire for efficiency leads 311 apps to prioritize relatively simple needs like street repairs over more complex (and therefore inefficient) needs like improved schools. One neighborhood official that I spoke with, for example, focused his efforts entirely around telling people to submit 311 reports and making sure those requests were responded to, with little focus on fostering deeper forms of engagement.

Rather than expect technology to completely solve civic engagement, cities must figure out which aspects of democracy and engagement can appropriately be characterized as technology problems.

For example, by designing technologies to facilitate deliberation rather than simple interactions, cities can develop online platforms that foster dialogue and community. Meanwhile, by disseminating information online and allowing online voting, cities can trim the fat from burdensome civic processes like participatory budgeting, allowing more people to participate in civic life without diminishing the value of that participation.

**Smart tech, stupid implementation**

The final mistake that cities make is to focus more on the technology itself rather than on integrating that technology into institutional practices and processes. Smart-city rhetoric prescribes newer and more advanced technology as the way for governments to quickly solve every problem, leading cities to acquire new technology without clear plans for how to use it.

Yet the real work of making technology valuable in cities involves reducing institutional barriers and developing the infrastructure and practices to make all that data actionable.

Let’s take a basic example: firefighting. Suppose a city wants to develop an algorithm aimed at reducing fires by predicting which buildings are most susceptible.

Creating the algorithm itself is a breeze compared with eliminating the operational roadblocks to developing and using it. The fire department might have incomplete data that is missing all of the fires from a recent year. Another department might have a full inventory of buildings in the city, but identify locations using a different format than the fire department does, making it difficult to merge the two sets of information.

Meanwhile, the fire department staff might not understand or trust the predictions made by the algorithm, especially if the predictions provide information that can’t easily be integrated into existing or new operations. For example, predictions of every building that pose a high fire risk may not be useful if the city only has the ability to intervene on buildings that face fire hazards due to outdated electrical systems.

Instead, municipal leaders must focus on the painstaking work of developing the infrastructure and processes that make the data useful in practice.

To help prevent fires, this means ensuring data is accurate, unifying data formats across different departments, making sure those departments share information, and training fire-department staff in how to use and interpret the data. And they need to study whether interventions based on that data actually had the desired effect.

Too smart for their own good?
Cities today are at a crossroads: As the opportunities for using technology grow, so do the risks.

When cities focus too narrowly on technology, they risk creating places that are superficially smart but where human needs are ignored. When they avoid these mistakes—when cities have well-defined goals that guide their use of technology, embrace the complexity of urban challenges to identify the most effective interventions, and focus on integrating technology into institutional processes—cities can achieve various forms of innovation that range from improving social services with algorithms, studying environmental conditions with sensors, and protecting community health by predicting unsafe restaurants.

Technology can help us attain these benefits—but only once we recognize its limits and the challenges to wielding it.

**The Wall Street Journal**

By Ben Green

May 17, 2019 2:55 p.m. ET

*Mr. Green is the author of "The Smart Enough City: Putting Technology in Its Place to Reclaim Our Urban Future." Email him at reports@wsj.com.*

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## Recap: Retail Fixed Income Roundtable – Hosted in St. Louis by Wells Fargo Advisors

On May 9th, the BDA held its annual Fixed Income Retail Roundtable in St. Louis, Missouri. The event included a networking reception and dinner at Vin de Set sponsored by DPC Data on the evening of Wednesday, May 8th.

The roundtable was hosted by Wells Fargo Advisors and was attended by over 35 retail fixed-income leaders from middle-market dealers, platforms, and technology vendors. The event was sponsored by Bondwave, Tradeweb Direct, Edward Jones and Build America Mutual.

The key issues discussed during the roundtable included: a global economic forecast, muni market trends, retail fixed income regulations, and the evolving landscape of fixed income market structure issues. A full recap of the issues discussed can be found below, and the agenda can be viewed here.

**Roundtable Recap:**

Thursday, May 9th
Wells Fargo Advisors
St. Louis, MO

***General Forecast and Outlook***
**Featured Speaker: Paul Christopher, Head of Global Market Strategy, Wells Fargo Investment Institute**
The roundtable was kicked off with a discussion on the overall health and direction of the U.S. and global economies. Included in the discussion were potential roadblocks for continued economic growth which included political pressures, tariffs, change in interest rates and Brexit.

***Municipal Market Update and Outlook***
**Featured Speaker: Dorian Jamison, Municipal Analyst ,Wells Fargo Advisors, Advice and Research**
This discussion covered the municipal market performace for Q2 of 2019. Since the post tax-reform slump in 2018, the market has increased marginally in the first quarters of the year. Mr. Jamison also discussed tax reform and the removal of advance refundings. The group also discussed the muni bond considerations in Puerto Rico, and other considerations the bond market is looking ahead to – such as the impacts of climate change on municipalities.

***Fixed Income Market Issues***
**Discussion Leader: John Reilly, Wells Fargo Advisors**
Mr. Reilly engaged members in a broad overview of marketplace issues. This included the end of LIBOR, new market participants and platforms, changing technologies, and the activities of the SEC's FIMSAC and BDA's own Fixed Income Market Structure Working Group.

***Fixed Income Regulatory Issues***
**Discussion Leader: Don Winton, Crews & Associates**
Mr. Winton engaged members in a discussion of the ongoing regulatory priorities influencing member firms. These included FINRA exam issues, FINRA report cards, Rule 4210, retail confirmation mark-up disclosures, and the upcoming SEC rule "Reg BI."

***BDA Legislative and Regulatory Update***
**Discussion Leaders: Kelli McMorrow and Brett Bolton, BDA**
BDA staff discussed key regulatory and legislative items that are directly affecting fixed income market and business practices. These included:

- FINRA Rule 4210
- MUMD compliance
- FINRA's TRACE pilot program
- MSRB Rule G-23
- Last Look/"Pennying"
- BDA's Fixed Income Market Structure Working Group
- Capitol Hill update on advance refundings, infrastructure, and GSE reform efforts

**Bond Dealers of America**

May 13, 2019

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## GSAM's Barber on Municipal Bond Rally.

Ben Barber, Goldman Sachs Asset Management head of municipal asset management, discusses the rally in municipal bonds on "Bloomberg: The Open."

Watch video.

**Bloomberg Markets: The Open**

May 15th, 2019, 9:46 AM PDT

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## Goldman Fund Makes Record Retreat From Muni Junk Bonds Over Risk.

- **High-yield fund boosts investment-grade holdings to record**
- **Flood of cash chasing yields has pushed up junk-bond prices**

Goldman Sachs Group Inc. has shifted money to the sidelines of the municipal junk-bond market, waiting for it to crack.

The company's $7.3 billion High Yield Municipal Fund, the third biggest focused on the riskiest state and local government debt, had about 62 percent of its assets in investment-grade securities by the end of April. It marks the fund's biggest move ever away from the lowest-rated bonds and a wager that the run-up in prices will reverse as speculative projects start to run into distress, said Ben Barber, head of municipal bonds at Goldman Sachs's asset management arm, which oversees $62 billion of the securities.

"What we're hoping for is there's a new round of opportunities in the muni market over the course of 2019 or 2020," he said in an interview. Goldman's high-yield muni fund beat more than 90 percent of its peers over the last five years.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

May 16, 2019, 10:34 AM PDT

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## The Quant Revolution Leads to Muni-Bond ETF of ETFs.

**Van Eck's new fund MAAX brings momentum trading to a traditional buy-and-hold market.**

No matter the iffy track record of quantitative investing, it appears there's no stopping its push into every corner of the financial markets.

Case in point: Van Eck Securities Corp. on Thursday launched the VanEck Vectors Municipal Allocation exchange-traded fund, with the ticker MAAX. That name correctly states that it invests in the $3.8 trillion market for state and local government debt — but that's very much only part of the story.

MAAX is an "ETF of ETFs," which for the most part will be divvying up money among five other Van Eck muni funds. The portfolio weights are determined by — you guessed it — a quant model "that uses momentum, along with both duration and credit risk indicators, to tactically allocate," according to a statement. "For investors looking for both tax-exempt income and enhanced risk-adjusted total returns, MAAX could be a compelling way to approach the municipal bond market."

Continue reading.

**Bloomberg Markets**

By Brian Chappatta

May 17, 2019, 4:00 AM PDT

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## Bond Giant Nuveen Must Face Claim It Bullied Banks.

- **Judge finds Nuveen's speech rights don't require tossing suit**

- **Texas-based bond fund says Nuveen seeking to organize boycott**

Preston Hollow Capital LLC can proceed with a defamation lawsuit against municipal bond giant Nuveen LLC, which is accused of running an intimidation campaign designed to decimate its smaller rival.

Preston Hollow presented sufficient allegations to move the case forward, Delaware Chancery Court Judge Sam Glasscock III said Tuesday. The judge rejected Nuveen's claim that its constitutional rights to freedom of speech allowed it to denigrate Preston Hollow's business practices, saying that argument needed more examination.

Preston Hollow claims Nuveen and its head of municipal-bond investments, John Miller, interfered with the Dallas-based firm's business contacts and disparaged its operations in an effort to pressure other bond players to stop working with it. Nuveen, which oversees more than $140 billion of municipal bonds and manages the biggest U.S. high-yield muni bond fund, generates millions of dollars in revenue for Wall Street trading desks.

Glasscock's ruling clears the way for Preston Hollow officials to gather information from bond-market players such as Goldman Sachs Group Inc. and JPMorgan Chase & Co. about recordings of telephone calls between Miller and other Nuveen officials. The company hopes to uncover new evidence of Nuveen's efforts to damage it.

Miller and his team allegedly called Deutsche Bank AG in December, demanding it unwind more than $400 million in financing deals with Preston Hollow and pressured the bank not to provide future loans.

"Today's ruling was based on the allegations in the complaint, and not on the evaluation of any evidence," Stewart Lewack, a spokesman for Chicago-based Nuveen, said in an email. "We continue to believe the claims are without merit and will vigorously defend ourselves."

Jonathan Morgan, a spokesman for Preston Hollow, declined to comment.

Glasscock didn't rule on Preston Hollow's request that he order Miller and other Nuveen officials to stop denigrating the fund or doing anything to scare off financial institutions — such as Deutsche Bank — from doing business with it.

The judge said he wants further submissions from lawyers to determine whether Nuveen's comments that Preston Hollow charged "excessive rates" on some bond transactions and engaged in "corrupt deals" in others met the test for defamation or amounted to puffery. That will help Glasscock decide whether to order Nuveen to stop what Preston Hollow calls "trash talking."

The case is Preston Hollow Capital LLC v. Nuveen LLC, 2019-0169, Delaware Court of Chancery (Georgetown).

**Bloomberg Markets**

By Jef Feeley and Martin Z Braun

May 14, 2019, 10:30 AM PDT Updated on May 14, 2019, 1:04 PM PDT

## Lenders Scolded for Climate Ignorance in 'Insane' Florida Real Estate Deals.

- **Munis under increasing scrutiny as cities heat up, seas rise**
- **'It's fine to rent in Florida, but it's insane to own or lend'**

Hurricane Michael killed seven people and caused more than $6 billion in damage in Florida in October, a toll compounded by warmer, higher seas and wetter air, the signs of climate change scientists have long warned about.

But investors have yet to pay any kind of meaningful attention, buying up long-dated debt and financing real estate decades into the future. That kind of market neglect means the Florida economy can be expected to "go to hell," warned Spencer Glendon, a senior fellow at the Woods Hole Research Center and a former partner and director of investment research at Wellington Management.

"No one should be lending for 30 years in most of Florida," he said at an investment conference in New York last week. "During that time frame, insurance will disappear and terminal values" — future resale income — "will shrink. I tell my parents that it's fine to rent in Florida, but it's insane to own or to lend."

Florida's economic crash could begin with banks or home-buyers worrying that annual insurance policies in some places will become prohibitively expensive, or disappear completely, Glendon said. That would shake the housing market and hurt property tax revenue, leaving Florida without an obvious way to pay for infrastructure to replace what's literally or figuratively under water.

Inability to replenish infrastructure in a slow-growth economy evokes community decay and economic decline reminiscent of Detroit or Puerto Rico, Glendon said. "I hope this is clear," he said in New York. "Civilization is built on climate stability. We are now accelerating into instability. Do your models reflect that?"

Trends in local municipal-bond and mortgage markets suggest they may not. The risks of climate change have begun to pop up in prospectuses and credit-analysis, to little effect. Ahead of a new debt offering last month, Miami Beach told potential investors that officials are "keenly aware of the risk from hurricanes and sea-level rise."

Miami Beach successfully raised its $162 million, with a 20-year maturity pricing at the same yield as a similar April offering by Charlotte, North Carolina, an inland city with much less climate risk. Both issues had the same call provisions, coupons and ratings from Moody's and S&P.

Comparisons are difficult, but if markets were acknowledging the scale of Florida-specific climate risk, Florida's bonds should sell at a discount, relative to similarly structured bonds sold elsewhere.

"I don't know whether the right price is half-price or 60% or 20%, but if it's at 100%, I know it's the wrong price," Glendon said in an interview.

At the same time, climate risk may be subsumed by other incentives. People who buy property in Florida may value the tax-free income more than they worry about climate risk. When it comes to mortgages, the ultimate buyers of securitized loans are far removed from local officials and residents who know what's happening on the ground.

Similar warnings are starting to reverberate among other financial institutions. BlackRock Inc. last month published a 20-page explanation of how climate-risk has become a necessary assessment in understanding shifting levels of risk and value.

The report concludes that 58% of U.S. metropolitan areas will face climate-related damages amounting to 1% or more of GDP by 2060-2080, and that “a rising share of muni bond issuance over time will likely come from regions facing economic losses from rising average temperatures and related events.”

**Bloomberg**

By Danielle Moran, Katia Porzecanski, and Eric Roston

May 13, 2019, 9:44 AM PDT

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## [S&P Credit FAQ: Quick Start Guide To S&P Global Ratings' Approach To U.S. State And Local Government Pensions]

S&P Global Ratings’ approach to pensions and other postemployment benefits (OPEBs) focuses on affordability–both current and on a cost trajectory. We analyze funding discipline through assumptions and contribution methods to determine if pension/OPEB costs will lead to budgetary stress. We consider pension/OPEB expenses fixed costs, akin to debt and tailor our analysis to the specific risk factor

Continue Reading

May 13, 2019

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## [Treasury vs. Muni Yield Curves: What Investors Need to Know]

**Most investors are familiar with interest rates, but it’s important to look beyond the headline rate. By looking at yield curves, investors gain better insights into market sentiment. Normal yield curves suggest a healthy market, but steep yield curves indicate the start of economic expansion and inverted yield curves can be a sign of trouble.**

Treasury yield curves are often referred to as the “benchmark curve” since they are backed by the U.S. government. Investors often compare other debt instruments to these benchmarks and calculate “spreads” between them. The spread is an important indicator of market sentiment on its own. Although municipal bonds should theoretically have no spread, that’s not always the case.

Let’s look at the difference between Treasury and municipal bond yield curves, and what investors need to know.

Continue reading.

**municipalbonds.com**

by Justin Kuepper

May 15, 2019

## How to Begin Incorporating ESG, Impact Investing into Portfolios? Try Munis.

You often hear it said that the first step is the hardest. But for investors and financial advisors looking to step onto the path to ESG and Impact investing, the first step can be an easy one—municipal bonds. Municipal bonds serve as a low-risk, tax efficient asset class that can dampen overall portfolio volatility and provide income. In addition to these favorable investment characteristics, when evaluating ESG and Impact opportunities, municipal bonds should be one of the first sectors that springs to mind.

**Asset Class Characteristics**

Most sectors of the municipal bond market, including tax-backed general obligation (think states, cities and counties) and various revenue-backed sectors (think utilities, hospitals, etc.), are amenable to ESG and value alignment investment approaches. Sectors such as education, healthcare, housing and utilities all have positive impacts, which investors pursuing such strategies will find attractive. The ability to invest directly in communities, in school systems, in renewable energy products, in clean water and in scores of other initiatives financed through the municipal bond market is a strong motivator for those seeking to achieve positive social and environmental outcomes with their investments.

That said, not all municipal bonds are impactful or ESG positive. Bonds financing prisons, detainment centers, fossil fuel power generation, hotels, shopping complexes and the like are also included in the municipal bond market. Even in sectors where a positive impact is possible, it takes a robust data collection and analytical effort to select bonds that achieve exceptional outcomes for the communities they serve. It takes an experienced team to evaluate the opportunities available and find those that are best suited for an ESG and Impact investing strategy. ESG factors that are material and relevant to the credit profile of an investment opportunity are integrated into any strong credit analysis; beyond this, identifying opportunities where financed projects can have a demonstrable positive effect on the surrounding community takes experience.

**Investment Performance**

One common question we receive around ESG and Impact investing pertains to the amount of performance sacrifice for incorporation. Based on our experience, when managed properly, the answer is none.

ETF TRENDS

by IRIS.XYZ

MAY 18, 2019

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## Fitch U.S. Water and Sewer Utilities Rating Criteria Revision.

To more clearly communicate credit opinions and facilitate a more forward-looking, predictable approach to ratings, Fitch Ratings has revised its U.S. Water and Sewer Rating Criteria. These revisions will facilitate a more forward-looking, predictable approach to ratings and better highlight differences among credits in the same category.

**Anticipated Rating Impact is Limited**
Assuming current credit characteristics are maintained, Fitch estimates approximately 10% of the ratings covered by the criteria will be affected, with slightly more upgrades than downgrades anticipated. Criteria-driven rating changes will be dependent on the finalization of criteria after assessing comments received during the exposure draft period.

**Experienced Analytical Judgment**
Fitch's ratings will continue to be based on the judgment of a team of experienced analysts, rather than on weighted assessments or model-based outcomes.

**Subfactor Assessments More Focused**
The subfactor assessments relating to the three key rating drivers have been refined to provide an enhanced focus on elements most important in determining credit quality.

**Clearer Communication of Credit Opinions**
The goal of the revised criteria is to communicate Fitch's credit analysis more clearly, presenting both high-level categorical assessments of key rating drivers along with well-defined opinions about both rating conclusions and the underlying fundamentals.

**Rating Changes More Predictable**
The revised criteria more clearly define and communicate Fitch's expectations of the range of performance.

**New Through-the-Cycle Tool**
Known as FAST, this tool highlights how cycles affect utilities differently, and will be publicly available with a select group of issuer data during the criteria comment period.

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## The Bond Buyer Op-Ed: How Do We Close the Infrastructure Gap? Restoring Advance Refunding Is a Start.

America faces an extraordinary infrastructure deficit. With existing federal infrastructure programs failing to meet current demand, the U.S. is continuing the troubling trend of under-investment in this area and risks substantially adding to the financial burdens of state and local governments.

This will only lead to further delays of investment in and maintenance of critical public projects, including highways, bridges, hospitals, airports, schools, water and sewer systems.

Prior to 2018, one way to help fund capital improvement and infrastructure projects was using tax-exempt advance refunding bonds (or advance refundings). This important financial-management program allowed state and local governments to save billions in interest costs by using proceeds from one bond issuance to essentially pay off another outstanding bond in advance of its call date. Savings were achieved because the new bond was issued at a lower interest rate than the original obligation.

By reducing their debt service expenses through advance refundings, states and localities were able to free up their borrowing capacity for new investments in infrastructure and other important public projects, in turn boosting their local economies with the creation of new jobs and making public services more affordable. This is much like homeowners refinancing mortgages to a lower interest rate.

State and local governments can no longer access cost savings through this valuable financial tool. As most in the industry know, the Tax Cuts and Jobs Act of 2017 eliminated advance refundings. We estimate state and local issuers are currently forgoing about $4 billion of present-value savings annually.

At SIFMA, we believe it is critical to close the infrastructure financing gap and it is imperative to restore and create additional vehicles to assist in resolving this need.

Preserving the tax-exemption, which is the financing mechanism for the clear majority of infrastructure projects that state and local governments undertake, is crucial. Further, as described above, we strongly support restoring the ability of state and local governments to advance refund their securities, which will help them efficiently manage their financial obligations.

But we need to do more.

The challenges of our national infrastructure are so complex that a single solution is not enough.

A comprehensive expansion of federal investment in infrastructure should include the authorization of a new direct-payment bond program and an increase in the volume cap for private activity bonds. An expansion of "bank qualified" tax-exempt bonds would support infrastructure investment in small and rural communities that may have difficulty accessing the capital markets.

Meaningful public-private partnerships (P3) can also be a potential important component, leveraging our capital markets for creative financing options through municipal bonds.

Initiatives for infrastructure finance should recognize the need for a partnership among federal, state and local governments as well as private investors and developers. Tax credits for equity investors and availability of tax-exempt financing for P3 projects as exists for traditional municipal bond-financed initiatives are other useful options.

Simultaneously, we are exploring how we can make existing investment dollars go further. Innovative approaches like design-build enable us to do just that.

The municipal bond market has long been a key component of successful infrastructure project financing. The recent dialogue between Administration and Congress around this issue represents an important step toward bringing our infrastructure into the 21st century.

With the current infrastructure crisis, restoring advance refundings and implementing other tools identified above, we can begin to close the financing gap and restore our nation's infrastructure.

This week, May 13-20, is the seventh annual Infrastructure Week – an opportunity to highlight and continue the important national conversation on the need to revitalize, modernize, and invest in infrastructure. Let's #BuildForTomorrow. Starting now.

BY: Leslie Norwood

DATE: May 17, 2019

*Leslie Norwood is a Managing Director & Associate General Counsel and Head of Municipal Securities at SIFMA*

## Introducing Fitch ESG Relevance Scores for Public Finance and Infrastructure.

ESG factors generally have a low level of direct impact on public finance and infrastructure credit ratings. However, governance is the most influential ESG risk factor across the overall ratings portfolio. This was driven by public finance issuers, which is not surprising given that factors such as political stability, creditor rights, financial transparency, governance structure, government independence and control of corruption are important considerations in our credit rating process.

**Download**: Our ESG Relevance Scores

**Watch Video:** Introducing ESG Relevance Scores – An Update for Public Finance and Infrastructure

## Fitch Ratings: U.S. Infrastructure Needs Federal Funding Commitment

Fitch Ratings-New York-15 May 2019: Any U.S. federal government plan for renewing infrastructure will need to provide for consistent, continued federal funding and more diverse funding sources to fully address the infrastructure deficit, says Fitch Ratings. The April meeting between the President and Democratic Congressional leaders in which they agreed to work toward a $2 trillion infrastructure plan was a first step in addressing infrastructure needs; however, the difficulty of hammering out the details may keep the plan from advancing. The second meeting between these parties, tentatively planned for the week of May 20, may provide more information regarding what level of federal funding the White House would back but ultimately Congress will need to get behind proposed legislation.

Federal funding will be an important factor in any plan's viability, as will private participation. The nation's significant infrastructure needs, encompassing not only transportation but also utilities, housing, and other social infrastructure, will require ongoing funding from various parties. Relying only on states and local governments will not be enough.

That said, with no federal plan currently in place, states have become increasingly proactive in raising necessary infrastructure money for themselves and local governments, primarily for transportation. Since 2013, 31 states raised gas taxes according to the National Conference of State Legislatures, including four in 2019 alone. Highway tolls were also used to pay for infrastructure not directly related to tolled roads and Fitch notes challenges to such policies have been rejected by the courts so far.

However, state and local governments are unable to raise adequate funds to fully address infrastructure needs on their own. State revenue growth since the end of the Great Recession has generally been slow, and coupled with rising costs for items such as pensions, Medicaid, and public education, states' budgets have limited headroom for additional spending on infrastructure. Local governments are similarly constrained with modest revenue growth and rising costs for pensions and other employee benefits, public safety and a varying tolerance for additional debt.

As an additional tool, a number of states, and increasingly municipalities, have turned to public-private partnerships (PPP) to procure a wide variety of projects, including roads and bridges, civic centers, courthouses and even public schools. While PPPs can impose long-term cost burdens for governments similar to traditional public procurements, in certain situations the PPP model can accelerate projects and has the potential to yield long-term savings if risks are appropriately managed. Given broad infrastructure demands, we anticipate continued growth in PPPs using private financing such as private activity bonds.

With details to be worked out, it may be hard to get any plan off the ground if Congress is unable to agree on the source of federal funding. Split control of Congress makes passage of such a large infrastructure bill tenuous. Disagreements exist over gas tax increases, reducing federal tax cuts and increasing the federal deficit. A plan proposed last year by the White House did not result in legislation.

Any infrastructure plan should provide for the renewal and replenishment of the federal highway transportation fund (HTF), which is the primary source of existing federal infrastructure funding and is supported primarily by federal gasoline taxes. The HTF provides around $40 billion in highway spending and $10 billion in transit spending to states annually. Since 2008 the HTF required transfers from the Treasury's general fund to close its revenue gap. The Congressional Budget Office forecasts the HTF will be depleted in 2022 without another infusion of general fund dollars. Putting the HTF on a sustainable fiscal path would serve as a strong indicator of the federal government's commitment to long-term infrastructure investment.

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## Federal Infrastructure Funding is Good, but Local Governments Want Flexibility Too.

**Accessing federal funds for infrastructure projects is much too difficult, county leaders say. With reauthorization of the FAST Act on the table, they want a bigger say in how money can be spent.**

Counties own 38% of bridges and 45% of roads across the country, totaling more than 3.1 million miles of pavement that require regular upkeep. That's a big responsibility for local governments that often lack the necessary funding to complete all the projects in their backlog.

"From the moment we leave our front doors, we rely on safe infrastructure to get us to our destinations, and that usually starts with local roads," said Corina Lopez, the vice mayor of San Leandro, California at a Wednesday event hosted by the National Association of Counties and the National League of Cities.

"There's no way we can do this alone at the local level," Lopez continued. "We need the federal government to round out the picture and create more robust infrastructure spending."

Continue reading.

**Route Fifty**

by Emma Coleman

May 16, 2019

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## Muni Yields Falling As $120 Billion Debt Set To Mature (Radio)

**MUNIS IN FOCUS: Joe Mysak, Editor Bloomberg Brief:** Municipal Market, discusses falling muni bond yields, and Puerto Rico cofina bonds. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 04:24

Play Episode

May 10, 2019 — 9:02 AM PDT

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## A Boon to $85 Billion Muni Tobacco-Bond Market Seen From FDA.

- **Citigroup says newly approved device could stanch sales drop**
- **'This is going to cannibalize Juul,' says analyst Rai**

One of the most volatile corners of the municipal-bond market is being whipsawed by Washington.

Securities backed by the payments states receive from the 1998 legal settlement with tobacco companies tumbled at the end of April after legislation was introduced in Congress to raise the age for buying cigarettes, a step that threatened to accelerate the steeper-than-anticipated drop in consumption that's weighed on the prices of the bonds.

But there may be a reversal-of-fortune for the $85 billion sector, thanks to the federal government. The U.S. Food and Drug Administration's April 30 approval of a tobacco-heating device could win back consumers that have switched to e-cigarettes, like Juul, and help stanch the decline in annual settlement payouts that finance the securities, according to Citigroup Inc. analysts led by Vikram Rai.

The Philip Morris International device heats a stick of tobacco in a way that produces a traditional cigarette taste without as many toxins. Citigroup's analysts anticipate that the sales from the device — unlike e-cigarettes such as Juul — will be included in the tally of annual cigarette shipments that determine the settlement payments.

"Juul is cannibalizing conventional cigarette sales," said Rai. "This is going to cannibalize Juul."

Tobacco bonds are a volatile part of the $3.8 trillion municipal market because they're heavily traded, making them easy for fund managers to sell whenever customers pull out their cash.

Regulatory decisions in Washington have also played a role in price swings. In November, junk-rated tobacco bonds dropped following reports the FDA was considering restricting menthol in cigarettes, and some of the riskiest securities plummeted 22 percent in 2010 after a 62-cents-a-pack federal tax increase dented sales.

Since states started selling bonds to get an advance on their settlement money, the traditional cigarette business has been in steady decline because of stricter regulation, tax increases and public health campaigns. E-cigarettes that deliver nicotine less harmfully have also cut into sales.

Altria Group Inc., the parent of Philip Morris USA, revised its estimate for the 2019 domestic cigarette industry volume to a decline of 4 to 5 percent, primarily because of increased gas prices and "other factors" it didn't specify.

Such declines helped push junk-rated tobacco bonds to a 0.6 percent decline in April, the sector's worst return since November. They were the only category of high-yield municipal bonds to suffer losses, according to the Bloomberg Barclays Muni High Yield Index. This month, they've pared that drop, returning 0.75 percent, compared with a 0.48 percent for the high-yield index.

Sales of HeatSticks, a heated tobacco unit used with the IQOS device, will contribute to the settlement agreement payments through Altria's Philip Morris USA, which is marketing both of the Philip Morris International products domestically. How much money that could add is hard to calculate, since Altria and the international unit haven't disclosed the terms of their licensing agreement.

The potential success of the device may hinge on the the ability of Philip Morris to convince smokers that the e-vapor system are less risky than cigarettes but more satisfying than rival products, according to Bloomberg Intelligence analysts Kenneth Shea and Gopal Srinivasan. And it will need to comply with the same marketing restrictions imposed on traditional cigarettes, which include bans on television and radio advertising.

Citigroup expects tobacco bonds will perform well even before the product gains ground, in part because of a supply crunch that is affecting the broader municipal market. Those that\ were issued in the early to mid-2000s and have higher coupons and could produce 11 to 12 percent returns this year, Rai said.

"As long as the market doesn't go into a tailspin, as long as inflows continue, by virtue of the high coupon, the returns are pretty good," Rai said.

**Bloomberg Business**

By Martin Z Braun and Danielle Moran

May 8, 2019, 10:35 AM PDT Updated on May 8, 2019, 1:02 PM PDT

— With assistance by Tiffany Kary

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## [Wall Street's Muni-Bond Trading Giants Are Losing Business to Rivals.]

- **Less than 20 percent of trades done by top three, MSRB says**
- **Drop in concentration seen as sign of liquidity, competition**

In the business of trading municipal bonds, the little guys are chipping away at Wall Street's behemoths.

The three biggest securities dealers handled fewer than 20 percent of the trades executed in the state and local debt market in 2018, down from about 24 percent the year before and over 29 percent in 2011, according to a report released Wednesday by the Municipal Securities Rulemaking Board, which didn't identify firms by name.

It found the concentration of trades among the top five and top 10 dealers also declined "significantly," even if the dollar volume of their share increased — reflecting work in handling bigger transactions. The biggest loss of business came from trades of $100,000 or less, the type done on behalf of individual investors instead of customers like mutual funds or insurance companies.

The regulator said it’s hard to identify why trading activity has become less consolidated among the biggest dealers, but said the rise of computer-driven trading may have played a role.

“The decrease in concentration in the top five dealers and a greater number of dealers participating in both large and small trades could be a sign of greater overall market liquidity, increased competition for customer business and a sign that customers are not as reliant on a few dealers as before,” the regulator wrote in the report.

The shift stands in contrast to the underwriting business, which has become heavily concentrated among the leading banks. Last year, nearly half of all new municipal-bond deals were handled by just three firms — Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., according to data compiled by Bloomberg.

**Bloomberg Markets**

By Martin Z Braun

May 8, 2019, 12:34 PM PDT

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## Credit FAQ: Has S&P Global Ratings' View On Special Revenue Debt Changed Following The First Circuit Decision?

The U.S. Court of Appeals for the First Circuit decision affirming a lower court’s decision that payment of Puerto Rico Highways and Transportation Authority’s special revenue secured debt is voluntary, and not required, during bankruptcy, has generated significant market attention. While the decision is technically only binding precedent for cases arising in the First Circuit, its impact is broad…

Continue Reading

May 1, 2019

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## Bondholders Beware? First Circuit Ruling’s Potential Adverse Impact on Puerto Rico’s Long-Term Restructuring Prospects.

Having practiced in Puerto Rico for nearly a decade, including being involved heavily in the ongoing Title III PROMESA proceedings, the recent ruling handed down by the First Circuit could prove to be the most impactful for the Island’s long term restructuring prospects and its access to the Bond markets. The controversial ruling, which pertains to the treatment of municipal revenue debt, has left investors with questions about the value and significance of a revenue pledge in a municipal bankruptcy. This blog provides some background and potential ramifications.

**Background**

The original U.S. District Court decision affected the municipal markets in January 2018, when the court ruled that municipal debtors were permitted, but not required, to apply special revenues to pay related bonds. The ruling reversed long-held practice as to the mandatory application of special revenues following municipal bankruptcy.

The controversy involved several series of bonds (the Bonds) issued by the Puerto Rico Highway and Transportation Authority (PRHTA). By statute, the Bonds were secured by a gross lien on revenues derived from certain highway tolls and excise taxes (collectively, the Pledged Special Revenues). The Bonds were also insured by a number of financial insurers (the Insurers), who were subrogated to the bondholders' rights upon payment of a covered default of the Bonds.

In March and April 2017, both the Commonwealth and PRHTA adopted fiscal plans purporting to modify the application of the Pledged Special Revenues. Under the Commonwealth's fiscal plan, certain of the Pledged Special Revenues would be diverted to the Commonwealth for its general revenue purposes, and under the PRHTA fiscal plan, PRHTA would be authorized to apply Pledged Special Revenues to pay operating expenses ahead of debt payments, in contravention of the gross lien granted to holders of the Bonds.

On May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Board) began debt adjustment proceedings for the PRHTA under Title III of PROMESA. Shortly thereafter, the trustee for the Bonds was instructed by the Puerto Rico Fiscal Agency and Financial Advisory Authority, on behalf of PRHTA, to cease making scheduled payments, based on the rationale that such payments violated the Bankruptcy Automatic Stay. On July 3, 2017, PRHTA defaulted on a scheduled payment of $219 million.

The Insurers filed suit against the Commonwealth, the PRHTA and the Board, seeking declaratory and injunctive relief. The Insurers asked the court to declare that the Bonds were secured by special revenues exempt from the automatic stay and to grant an injunction requiring PRHTA to resume remittance of the Pledged Special Revenues. The Insurers' arguments hinged on the interpretation of Sections 922(d) and 928 of Chapter 9 of the U.S. Bankruptcy Code, which address the treatment of special revenues in municipal bankruptcy.

The court dismissed the Insurers' claims, holding, in effect, that while Section 928 extended the Bonds' statutory lien to cover post-filing special revenues and Section 922(d) indeed permitted the municipality to apply those special revenues to make the secured payments, neither provision affirmatively required such payments.

The First Circuit heard the Insurers' appeal and, on March 26, 2019, affirmed the lower court ruling, dismissing the Insurers' claims. The First Circuit reasoned that:

"In sum, Sections 928(a) and 922(d) permit, but do not require, continued payment during the pendency of the bankruptcy proceedings. The two provisions stand for the premise that any consensual prepetition lien secured by special revenues will survive the period of municipal bankruptcy, and, accordingly, municipalities can elect to voluntary [sic] continue payment on these debts during the course of the bankruptcy proceedings so as to not fall behind and thus be at risk of being unable to secure financing in the future."

**Adverse Effects and Future Outlook**

Strong industry concerns have emerged that the ruling will have a broader impact on holders of municipal revenue debt, particularly given the lack of jurisprudence interpreting issues of municipal bankruptcy. The ruling raises concerns about the value of a municipal revenue pledge and creditors' ability to enforce any lien on such revenues post-bankruptcy, or to otherwise protect the revenue stream. This is very pertinent as the market has been closely monitoring the PROMESA proceedings and its potential impact on how future municipality bankruptcies could play out.

It appears that, at least in the short-term, investors may turn to requiring heightened disclosures and modified structures to provide greater protection in future debt issues. Concerns also linger as to the Island's short and long term access to the market, which has provided strong financial backing in the past. There still exists the possibility that this issue will be taken to the United States Supreme Court. In the meanwhile, expect the ramifications to be felt.

by Paul Hammer

May 2 2019

**Kane Russell Coleman Logan PC**

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## [Muni Bond Market Heats Up As Fund Inflows Swell.]()

Summary

The municipal securities market continues to generate steam, as funds attract further inflows amid light new issuance.

US$1.72bn flowed into municipal bond funds and US$416m into ETFs, according to ICI, while municipal relative value ratios sunk to their lowest level in about a decade.

Holders of some major muni-fueled ETFs have also been enjoying a recent surge in value.

Meanwhile, the University of Pittsburgh Medical Center (UPMC) is set to offer around US$738m worth of revenue bonds through Pennsylvania's Allegheny County Hospital Development Authority.

Other deals on the radar for the week ahead include US$1.5m worth of general revenue bonds from New York's Triborough Bridge and Tunnel Authority, as well as almost US$486m of school district revenue bonds from the Dormitory Authority of the State of New York (DASNY).

The municipal securities market continues to generate steam, as funds attract further inflows amid light new issuance.

Flows into muni bond mutual funds and exchange-traded funds (ETFs) remained positive in the week ending May 1.

According to the Investment Company Institute (ICI), investors in the latest week added US$1.72bn to municipal bond funds and US$416m to ETFs, contributing to a tally of roughly US$35bn to date in 2019.

Holders of some major muni-fueled ETFs have also been enjoying a recent surge in value.

Prices of the iShares National Muni Bond fund (NYSEARCA: MUB) and the Vanguard Tax-Exempt Bond fund (NYSEARCA: VTEB), for example, have soared around 5% to 5.3% since their latest 52-week lows set in early November 2018 of US$106.575 and US$49.855, respectively, according to the IBKR Trader Workstation. MUB and VTEB were last up just north of 0.2% intraday Thursday, each setting new 52-week highs.

Janney Montgomery municipal strategist Alan Schankel recently highlighted that the muni bond market is "on one of the strongest performance streaks we've seen in a while, as light supply and continuing strong demand push relative value indicators, such as municipal-to-Treasury ratios, to cyclical lows." In fact, municipal relative value ratios have sunk to their lowest level in about a decade.

Schankel added that muni 'AAA' benchmark yields finished lower again Wednesday, despite a "poor" U.S. Treasury auction-fueled selloff.

Bloomberg data shows that 10-year state and local debt yields a little more than 72% of Treasuries, compared with just north of 73.5% in the previous session. They had yielded nearly 77.25% a month ago.

**UPMC Graces the Fixed-Rate Calendar**

Against this backdrop, a handful of issuers have potential new offerings on the fixed-rate calendar in the week ahead, including nearly US$738m worth of University of Pittsburgh Medical Center (UPMC) revenue bonds through Pennsylvania's Allegheny County Hospital Development Authority.

UPMC said it intends to apply the proceeds from the sale towards refunding certain existing outstanding indebtedness, as well as certain debt-related expenses.

The deal, which has serial maturities from July 15, 2020 through 2039, has been rated 'A1' by Moody's Investors Service, and 'A+' by both S&P and Fitch Ratings.

Fitch earlier in May had cut the revenue bond rating one notch to 'A+' from 'AA-' on UPMC's outstanding parity debt issued by UPMC and via other authorities, including the Pennsylvania Higher Educational Facilities Authority, Allegheny County Hospital Development Authority, and the Pennsylvania Economic Development Financing Authority.

Fitch analysts Olga Beck and Eva Thein noted that the credit rating downgrade was mainly due to UPMC's "lower liquidity position, which has historically lagged the 'AA' category and does not compare favorably to the system's higher leverage position."

At fiscal year-end 2018, UPMC's cash to adjusted debt fell to 90%, with investment losses incurred as of December 31, 2018.

Beck and Thein continued that while investment valuations have recovered in the first-quarter of fiscal 2019, the year-end results "highlight the vulnerability of a low cash position in times of market volatility for a system with a higher debt load and historically low cash flow generation."

Fitch added that while it expects UPMC's integrated delivery model, including its "aligned physician base, extensive health plan, and sizeable delivery network," to continue to "significantly shift the market in Western Pennsylvania in UPMC's favor," it also anticipates "no significant changes" in either its profitability or balance sheet metrics in the near to intermediate-term.

UPMC's debt service coverage ratio fell to 2.37x in the trailing twelve-month (TTM) period ended March 31, 2019 from 2.49x in the TTM ended December 31, 2018. Over the same period, its revenues available to service debt shrunk to US$930.5m from US$975.1m, while its debt rose to US$392.7m from US$391m.

Meanwhile, Moody's said its 'A1' reflects its expectations that UPMC will continue to benefit in large part from its "notable scale," with a consolidated revenue base of nearly US$19bn, as well as its leading market share in most of the markets it serves.

However, Moody's analyst Beth Wexler said she expects UPMC's financial profile to "remain stressed" over the intermediate-term. Furthermore, Moody's also attributed its negative outlook on the latest series 2019A deal to "modest" operating cash flow and balance sheet measures, which are likely to provide limited flexibility as UPMC's growth is digested.

In mid-August 2018, UPMC had also sold more than US$943m of tax-exempt muni bonds in four parts, with maturities ranging from 2023 to 2047. Its 10-year tranche had priced to yield 3.18%, a spread of nearly 73.5 basis points more than matched-maturity U.S. government debt.

Its proposed series 2019A debt is expected to be issued as fixed-rate, tax-exempt bonds and sold via negotiation the week of May 13, 2019.

In the meantime, other deals on the radar for the week ahead include US$1.5m worth of general revenue bonds from New York's Triborough Bridge and Tunnel Authority, as well as almost US$486m of school district revenue bonds from the Dormitory Authority of the State of New York (DASNY).

**Seeking Alpha**

May 12, 2019

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## Bond ETFs Vs Bond Mutual Funds.

One of the most common questions we get at ETF.com is, what's the difference between an ETF and a mutual fund?

Usually, our answer is some combination of "better tradability + more transparency + lower costs." ETFs trade intraday on exchanges like stocks, they regularly disclose their holdings, and they rely on authorized participants (APs) to create and redeem shares and keep prices in line. That last characteristic helps to lower fund expenses and reduce ETFs' tax burden, and as such, attracts the lion's share of attention from investors.

However, it's easy to overlook how much tradability can matter—especially in the fixed income space, where ETFs have had a profound impact on the way people invest. Bond ETFs have created, quite literally, a fairer and more liquid underlying market—something that benefits everybody, regardless of their preferred investment vehicle.

Continue reading.

ETF.COM

by LARA CRIGGER

May 13, 2019

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## [J.P. Morgan Launches New Digital Bond Ladder Tool.]

**Helps financial advisors build hypothetical bond ladders tailored to help meet client needs**

NEW YORK, May 8, 2019 /PRNewswire/ — J.P. Morgan Asset Management today announced the launch of *Bond Ladder Illustrator*, a new tool for financial advisors to create hypothetical municipal bond ladders based on customizable inputs such as tax rates, credit quality, maturity ranges and interest rate views.

Powered by an engine built in partnership with Asset and Wealth Management's Intelligent Digital Solutions group, the tool provides advisors with the unique opportunity to create hypothetical bond ladders based on actual municipal bonds that have gone through J.P. Morgan's extensive credit review process, rather than generic benchmark interest rate curves.

"Using actual municipal bonds that have made it into J.P. Morgan's portfolios enables the tool's output to be more indicative of what a client would actually get if they choose to build a laddered portfolio with us," said Rick Taormina, Head of Tax Aware Strategies at J.P. Morgan Asset Management.

Some of the tool's key features include a tax rate calculator, customizable portfolio assumptions based on client preferences, and a personalized, end-client ready report that includes key portfolio characteristics, estimated investment returns, income, cash flow and total return metrics.

Bond Ladder Illustrator is the latest addition to J.P. Morgan's suite of digital portfolio construction tools as the firm continues to deliver sophisticated digital capabilities to financial advisors, said Andrea Lisher, Head of the Americas for J.P. Morgan's Global Funds business.

"This is another great example of how we're investing in leading-edge tools to help financial advisors build stronger portfolios for their clients," Lisher said.

"Like our digital Portfolio Analysis and Investment Comparison tools, Bond Ladder Illustrator combines the 'power under the hood' of J.P. Morgan's insight and expertise with 24/7 convenience and an easy-to-use interface that gives advisors what they need in just a few, simple clicks."

Advisors can access the Bond Ladder Illustrator at jpmorgan.com/bondladder.

**About J.P. Morgan's Municipal Bond Investing Team**

With over $69 billion in municipal bond assets, J.P. Morgan's dedicated investment team and seasoned credit analysts have managed municipal bonds through a range of credit and market cycles for more than 35 years. The firm offers a broad range of municipal bond solutions across the duration and quality spectrums designed to meet an individual's unique circumstances including risk tolerance, cash flow needs, tax status and investment horizon.

**About J.P. Morgan Asset Management**

J.P. Morgan Asset Management, with assets under management of $1.7 trillion (as of March 31, 2019), is a global leader in investment management. J.P. Morgan Asset Management's clients include institutions, retail investors and high net worth individuals in every major market throughout the world. J.P. Morgan Asset Management offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity. J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. (NYSE: JPM), and its affiliates worldwide.

Any forecasts, opinions, statements of financial market trends or investment techniques and strategies expressed are those of J.P. Morgan Asset Management, unless otherwise stated, as of the date of the release. They are considered to be reliable at the time of this release, and may be subject to change without notice. Investing in Alternatives investments involves risks.

J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. Those businesses include, but are not limited to, J.P. Morgan Investment Management Inc., Security Capital Research & Management Incorporated, J.P. Morgan Alternative Asset Management, Inc., and J.P. Morgan Asset Management (Canada), Inc.

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SOURCE J.P. Morgan Asset Management

May 08, 2019, 13:00 ET

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## Fitch Rtgs: Opioid Lawsuits to Have Small Effect on State, Local Budgets

Fitch Ratings-New York-07 May 2019: States and local governments are taking legal action to recoup costs related to the opioid crisis but potential litigation awards may not fully account for the budgetary outlays, says Fitch Ratings. Lawsuits may be able to recoup some governmental expenditure for treating addiction and the social fallout of addiction but redress as a result of court decisions or legal settlements is not likely to significantly affect government budgets. Compensation will not be as much as provided for in the 1998 tobacco master settlement agreement (MSA), proceeds of which were not sufficient to affect state and local government credit quality.

Direct and indirect economic loss to governments from opioid abuse results from decreased productivity, lost wages, healthcare, substance abuse treatment, social services, and court and correctional expenses. These costs affect state and local governments in two ways: by diverting resources from other expenditures and by depriving governments of economic growth. A study in the journal Medical Care by researchers at Pennsylvania State University (PSU) estimated opioid misuse reduced state tax revenue by $11.8 billion between 2000 and 2016.

In recent court cases, governments alleged drug manufacturers, distributors and pharmacies misled the public on the dangers of opioids, which contributed to opioid overdose deaths, arguing these parties are responsible for abetting the crisis and related fallout. Oklahoma recently settled a lawsuit against Purdue Pharma for $270 million in which the state alleged the company aggressively and deceptively marketed OxyContin. The settlement includes $20 million for treatment drugs and $12 million to Oklahoma cities and towns. The settlement is carved out of any potential bankruptcy filing by Purdue.

Thirty-five other states have sued manufacturers in state courts, in addition to approximately 1,600 independent cases brought by states, counties, cities, tribes and other entities, such as unions and hospitals that have been consolidated in a multidistrict lawsuit in a US district court in Ohio, expected to be heard in October. Lawsuits were also brought by New York, Vermont, and Washington against drug distributers Rochester Drug Cooperative, Cardinal Health (BBB/Stable), McKesson (BBB+/Stable) and AmerisourceBergen (A-/Stable).

Fitch has indicated the outcome of the federal case may be a tobacco-style MSA. However, we expect any settlement would result in a smaller award than the tobacco litigation, which was $200 billion, as opioids are FDA approved prescription medications, and the sale of opioids are a small fraction of tobacco product sales. State costs related to the crisis are believed to be significantly less than the decades of health care expenses incurred by states tied to tobacco usage.

It is unknown how proceeds from any successful litigation will be allocated. Previous opioid settlement awards have been spent in various ways and not always directly for the benefit of those struggling with addiction. This outcome is similar to the MSA, in which the agreement with states did not specify how proceeds should be spent, and indeed, tobacco MSA proceeds have been used for many different purposes.

The US Council of Economic Advisers estimates the economic cost of the opioid crisis was $504 billion in 2015, including fatalities from opioid overdoses. However, the effect on individual states and counties varies widely. The PSU study underscored that estimates of lost tax revenues by state is dependent upon each state's tax rates and population size. The disparate effect on various parties will mean the allocation of any settlement proceeds will be adjudicated based on related effects to the many plaintiffs.


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## Fitch Ratings: Higher Risk Not Translating to Similar Returns for U.S. Pensions

Link to Fitch Ratings' Report(s): U.S. State and Local Pension Investments (Concerns Grow with Riskier Allocations, Lower Returns)

Fitch Ratings-New York-06 May 2019: U.S. state and local pensions have taken on riskier asset allocations in recent years, though the rate of return is paling compared with the higher risk according to Fitch Ratings in a new report.

State and local pension plans have steadily increased their allocations to equities and alternatives such as real estate, private equity, hedge funds and commodities over the last several years. Asset allocation to both equities and alternative investments rose to 77% in 2017 from 67% in 2001. In contrast, asset allocation to fixed income investments and cash fell to 23% in 2017 from 33% in 2001. However, median average returns for major state and local systems were 6.2% between 2008 and 2017 compared with 6.4% between 2001 and 2017.

The falling rate of return is particularly notable for seven states (New Hampshire, Arizona, Rhode Island, Connecticut, Maryland, Hawaii and New Jersey), which showed average underperformance of 2% and higher. This is a performance gap that over time could have a material impact on how some pension plans are funded according to Olu Sonola, Group Credit Officer of U.S. Public Finance at Fitch. 'Persistent shortfalls in investment performance eventually necessitate future increases in employer contributions, which could be especially problematic for states with already elevated pension liabilities,' said Sonola.

Arizona's 86% allocation to equities and alternatives is the highest among U.S. states. Conversely, states like South Dakota (66% allocation to equities and alternatives as of 2017) and Indiana (48% allocation to alternative investments) are clearly making a hard turn away from riskier assets.

These developments will be critical in determining the overall picture of unfunded pension liabilities, which eclipsed $1 trillion two years ago. The increase in unfunded liabilities largely reflects lower than expected investment returns, shortfalls in actuarially determined contributions and steady increases in projected future benefits.

'U.S. State and Local Pensions – The Changing Risk-Return Landscape' is available at 'www.fitchratings.com' or by clicking on the above link.

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## [Pensions Have Tripled Their Investment in High-Risk Assets. Is It Paying Off?]

**A growing body of evidence shows that "alternative investments" may be lowering returns and costing state and local governments more.**

Public pensions are more invested than ever before in high-risk and expensive assets like real estate and hedge funds. Yet research continues to show that this tactic is unlikely to improve their earnings.

According to Fitch Ratings, in the span of a decade, pensions tripled their average investment in these so-called alternative investments. In 2007, they averaged 9 percent of state and local public pension investment portfolios. By 2017, that number had risen to 27 percent.

During that period, median average returns on overall investments were 6.2 percent, according to Fitch. But during the longer period between 2001 and 2017, reflecting a time of less reliance on alternative investments, they were actually slightly better: 6.4 percent.

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GOVERNING.COM

BY LIZ FARMER | MAY 8, 2019 AT 4:00 AM

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## How Many Local Governments Is Too Many?

**See which states, metro areas and counties have the most.**

It's not uncommon for one metropolitan area to be home to dozens of local governments. In lots of those places, mayors and other local officials often lament the difficulties of having to coordinate with so many cities, towns and counties.

There's no agreed-upon definition for this local government "fragmentation," but most researchers measure it by the number of governments per capita. We used that measurement, along with the number of governments per square mile, to see which metro areas and counties are the most fragmented.

Our calculations are based on the latest Census of Governments survey, which is conducted every five years and counted 38,779 cities, counties, towns and other general-purpose local governments (excluding special districts).

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BY MIKE MACIAG | MAY 7, 2019 AT 4:00 AM

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## Rising Debt Imperils Trump, Dem Hopes on Infrastructure.

President Trump and Democrats are in a crunch as they try to pursue a $2 trillion infrastructure package amid rising concerns in some quarters about the deficit and national debt.

While many support the concept of an infrastructure push, members of Congress and outside groups are worried about how to pay for such a massive haul with national debt topping $22 trillion.

"It's $200 billion a year, so that's not an easy pay-for. I don't know how you'd do it without raising taxes," said Rep. John Yarmuth (D-Ky.), who chairs the House Budget Committee.

"If we can find a way to pay for it, or pay for a substantial portion of it, I think it's a great goal to have," he added.

Trump and congressional Democrats have both frequently named infrastructure as one of their priorities and view the issue as an opportunity for bipartisan legislation in a divided government. Democratic leaders said that in a meeting on Tuesday, they and Trump agreed to pursue a $2 trillion bill. Lawmakers and the White House are expected to meet again in the coming weeks to discuss funding options.

But finding the money is a problem, and Democrats have left it to Trump to suggest a plan for their next meeting.

"We know we can spend the money. People will be delighted to spend the money on roads and bridges and inland waterways and ports and rural broadband, no problem. But the part of the discussion that's lacking is, how are you going to pay for it?" said Rep. Tom Cole (R-Okla.), an appropriator.

The government will be forced to borrow money for any part of the plan it can't offset with new revenues or other cuts, and that could spell trouble for the debt.

Even before infrastructure is considered, the country's debt burden will reach 105 percent of gross domestic product by 2029 if current tax and spending policies are left in place, just a point below the record debt level at the end of World War II, according to a Thursday report from the Congressional Budget Office.

Budget watchers say that the debt path is unsustainable and will eat into the country's economic well-being if it is not addressed.

"Rebuilding infrastructure can be critical and productive for our economy, but that also means it's important enough to be paid for. If we can agree it's necessary, we can agree we should pay for it," Michael Peterson, CEO of the Peter G. Peterson Foundation, which focuses on addressing fiscal issues, said in a statement to The Hill.

While debt levels are currently high, interest rates are currently low, which could give lawmakers some breathing room to phase in offsets to infrastructure spending over the course of several years.

"Interest rates are still pretty low, so it doesn't need to be paid for in year one," said Marc Goldwein, senior vice president and senior policy director of the Committee for a Responsible Federal Budget (CRFB).

But Goldwein said that it's important for an infrastructure package to eventually be fully paid for. He said that there isn't evidence that an infrastructure bill would pay for itself and that after the GOP tax law and government spending legislation added to deficits, "we can't just keep adding $2 trillion at a time."

The CRFB projected that just the interest costs of the debt are on track to surpass defense spending by 2024.

Kent Smetters, a professor at the University of Pennsylvania's Wharton School, said that infrastructure is the most pro-growth when it's not deficit financed and public investments are made without private capital being shifted to public capital.

"That's where you get the biggest bang for your buck," he said.

Senate Minority Leader Charles Schumer (D-N.Y.) has expressed interest in rolling back the GOP tax law to pay for an infrastructure package, but that's a non-starter for Republicans and business groups. Some lawmakers are supportive of gas-tax increases, and Trump has expressed an openness to that idea in the past, but other lawmakers view gas tax hikes as regressive or oppose increasing taxes altogether.

"I'm certainly not in favor of any type of tax increase, no gas tax increase. That would be a bad idea, and $2 trillion is an unbelievable amount of money, particularly when we've got a $20 trillion debt," said Rep. Jim Jordan (R-Ohio), a conservative who often has Trump's ear.

Anti-tax crusader Grover Norquist, president of Americans for Tax Reform, suggested that the federal government's contribution to an infrastructure package could come from selling off loans, and that amount could be supplemented by contributions from state and local governments and the private sector. He pointed to bipartisan legislation that has been introduced in the past to require the Agriculture Department to sell distressed assets.

"We have bipartisan, left-right agreement on using the sale of loans to create the capital to rebuild and fix the various roads and bridges," he said.

Most Democrats want an infrastructure package to mostly consist of direct federal investment, and they said that Trump has criticized his own past proposals that rely heavily on public-private partnerships.

Progressives say that there are plenty of revenue options to cover costs.

"There are so many ways to pay for infrastructure," said Rep. Pramila Jayapal (D-Wash.), co-chair of the Congressional Progressive Caucus (CPC), which included a $2 trillion infrastructure plan in its proposed budget last year.

"From a wealth tax to a financial transactions tax, there's all kinds of specific, documented ways in our CPC budget that we propose paying for that," she said.

The CPC budget outlines a tax code overhaul that would cut a slew of corporate deductions, change capital gains taxes, raise top-level income taxes, including a new bracket for income above $1 million, and broaden estate taxes.

Some progressives, such as Rep. Dan Kildee (D-Mich.), argued that Washington should borrow money and take on more debt to help fund the multitrillion-dollar package.

"I want us to have an honest conversation about what it's going to take to pay for it and not start with the idea that we take debt off the table," said Kildee, who has pushed for a bigger federal response to the Flint water crisis.

"We borrow money to buy a house, but we have the asset of the house so we don't really fret with the amount of debt associated with it. We have to look at infrastructure as an asset."

But the idea of borrowing money to help fund an infrastructure package won't sit well with fiscal hawks in either party.

"I think it should be fully offset," said Rep. Dan Lipinski (D-Ill.), a member of the Blue Dog Coalition of centrist Democrats. "Transportation and infrastructure has always been done by user fees, and I continue to support doing that."

If Trump, who in a recent Gallup poll had a 91 percent approval rating among Republicans, puts his full-throated support behind a tax hike to pay for infrastructure, he may yet be able to win over some members of his party.

"I think enough Republicans could support something like that if the president were for it," said Cole, the appropriator.

But, he added, "I don't know what the president is for. He hasn't told us."

THE HILL

BY NAOMI JAGODA AND NIV ELIS – 05/06/19

*Scott Wong contributed.*

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## S&P: Opportunities And Risks Continue To Emerge In Privatized Student Housing

As of April 30, 2019, S&P Global Ratings maintained 62 public ratings on privatized student housing projects in the U.S. While the majority of these projects are secured by a non-recourse pledge of net housing project revenues, a small number benefit from additional financial support from their related underlying institution, whether in the form of a first fill agreement, vacancy guaranty, or univ…

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May 8, 2019

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