

## **CEQ Requests Comments on Changes to NEPA Review Process Governing Infrastructure Projects.**

The Council on Environmental Quality (CEQ)—the US federal agency responsible for coordinating and overseeing federal agency implementation of the National Environmental Policy Act (NEPA)—moved one step closer on June 20 towards revising its longstanding NEPA-implementing regulations. Those regulations, which last underwent a major revision in 1986, govern the environmental review process for all “major federal actions,” including Federal Energy Regulatory Commission (FERC) license reviews for hydroelectric projects and certificates for natural gas facilities.

Now, in an Advance Notice of Proposed Rulemaking (ANPR), the CEQ signaled that it is ready to receive public comments on potential revisions that it hopes will “ensure a more efficient, timely, and effective NEPA process consistent with the national environmental policy stated in NEPA.” Comments are due July 20, 2018.

The ANPR seeks comments on specific issues and further invites commenters to provide “specific recommendations on additions, deletions, and modifications to the text of CEQ’s NEPA regulations,” including their justifications, to update and clarify the regulations. Among other things, CEQ seeks public feedback on whether:

- the regulations should be revised to ensure optimal interagency coordination of environmental reviews and authorization decisions, including more “concurrent, synchronized, timely, and efficient” decisions when multiple agencies are involved;
- any rule changes could better facilitate agency use of environmental studies, analysis, and decision conducted in earlier reviews;
- provisions relating to agency responsibility and preparation of NEPA documents by contractors and/or project applicants should be modified;
- the regulations relating to programmatic NEPA documents and tiering should be revised;
- the scope of agency NEPA reviews, including whether rules for formats and page lengths of NEPA documents, should be revised;
- the CEQ should include time limits for completion of agency NEPA reviews;
- the rules for public involvement should be revised to be more inclusive and efficient;
- the definitions of key terms, such as “major federal actions,” “effects,” “cumulative impacts,” “significantly,” “scope” and others, should be revised;
- new definitions, such as for the terms “alternatives,” “purpose and need,” “reasonably foreseeable,” and “trivial violation,” should be added to the regulations;
- provisions relating to certain types of NEPA documents (e.g., categorical exclusions documentation, environmental assessments, environmental impact statements, records of decision, supplements) should be altered;
- any of the regulations’ current provisions are “obsolete” and can be updated to reduce “unnecessary burdens and delays;”
- the rules can be changed to better reflect or incorporate new, efficiency-boosting technologies;

and  
mitigation requirements should be revised.

The questions posed by CEQ follow efforts by other federal agencies to streamline or reevaluate the NEPA process for major infrastructure projects. Earlier this year FERC initiated a Notice of Inquiry seeking information and stakeholder input on FERC's policies regarding its review and authorization of interstate natural gas transportation facilities under Section 7 of the Natural Gas Act. Among other things, the Notice of Inquiry seeks comment on the scope of FERC's environmental analysis of proposed natural gas projects (e.g., whether downstream GHG emission impacts should be considered), as well as the efficiency of the certificate application review process. Efforts by other agencies have similarly focused on streamlining the environmental review process: the [One Federal Decision Memorandum of Understanding](#) signed by 12 federal agencies committed to a coordinated NEPA process that allows all permitting decisions to be completed within two years. Those efforts, as well as the CEQ's ANPR and FERC's Notice of Inquiry, have been driven largely by [Executive Order 13807](#), which President Donald Trump issued August 15, 2017, to "enhance and modernize" the environmental review and permitting process for infrastructure.

Given the highly visible and pervasive nature of the NEPA-implementing regulations, it will be important for FERC-regulated entities that depend on federal agency action when advancing projects and securing permits to participate in the rulemaking. Such comments will be critical to CEQ having a sufficient agency record to defend against any later litigation challenges to new regulations.

#### **Morgan Lewis & Bockius LLP**

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USA June 20 2018

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### **[Wells Fargo Struggles to Get Off the Municipal-Bond Blacklist.](#)**

#### **The bank's sales scandal continues to weigh on underwriting gigs for cities, states**

Some states and cities that do business with Wells Fargo & Co. continue to steer clear of the bank when selling municipal bonds to the public, the latest sign larger customers haven't forgiven its sales-practices scandal.

New York City's leaders have a prohibition on bond deals with Wells Fargo. California and Ohio both recently extended their own limitations on doing business with the bank. Chicago shunned Wells Fargo for a year and hasn't done a deal even after its ban expired.

Wells Fargo's ranking among underwriters by volume fell to eighth in this year's first quarter from third two years earlier, before the scandal, according to Thomson Reuters data.

"There's no question that the business bans that came up two years ago had an impact on our growth," said Phil Smith, head of Wells Fargo's government and institutional banking group, which includes municipal banking. But Mr. Smith said many clients are giving the bank the "go ahead to compete for business."

Underwriting municipal bonds is a small part of Wells Fargo's business, sitting within the bank's wholesale banking group. Wholesale banking makes up around half of Wells Fargo's profits. But the municipal-banking issues show the widespread impact of the sales-practices scandal, which centered on its business with retail customers.

Relationships with treasurers' offices around the country may be hard to repair.

"The court of public opinion still weighs heavily on elected officials," said Richard Ciccarone, president and chief executive of Merritt Research Services LLC, a municipal-bond research firm. When an underwriter's image is tarnished, he said "they can go into the penalty box for a period of time."

The governments steering clear of Wells Fargo once produced a stream of fees for the bank, documents show. New York City and California issue billions of dollars in bonds annually, and fees can run to as much as \$2 million per deal, documents show. The lead underwriter typically receives between 35% and 65% of the fee amount, according to industry practices.

States first pulled their business soon after the bank's sales-practices scandal erupted in September 2016. The bank later said it opened as many as 3.5 million customer accounts without their knowledge or authorization. That fall, Chicago and at least four states approved temporary bans on certain business with the bank, such as underwriting and investing, according to officials and public records.

Mr. Smith said Wells Fargo has been meeting with officials in Chicago and that he hopes to win business there soon.

In March 2017, Wells Fargo received a downgrade on its Community Reinvestment Act rating. Several governments limit business with banks deemed less than "satisfactory." New York City put its ban in place in May 2017. This past February, Wells Fargo was hit with a Federal Reserve asset cap for "widespread consumer abuses."

The state and local government bans typically prohibited Wells Fargo from serving as lead underwriter and sometimes applied only to negotiated deals. Some extended to schools like the University of California and to airports including Midway and O'Hare in Chicago, public officials said.

"We still have some pockets where bans are being renewed or the worst part is, it's just hard to hire us," Mr. Smith said. "We keep competing where we can and continue to provide them with ideas." He added that the new tax law has reduced overall bond issuance.

Saving money has at times trumped public officials' qualms about Wells Fargo. The bank underwrote three bond deals in California, where laws require the use of the lowest bidder on competitive sales. Seattle continued to bank with Wells Fargo after no other firm showed interest in providing the city with depository services. Florida welcomed Wells Fargo, which repeatedly underbid competitors.

"My position on that has always been you ought to be making business decisions on economics not politics," said Florida's state bond director, Ben Watkins.

But Las Cruces, N.M., recently terminated Wells Fargo as the bank handling the city's day-to-day banking needs, ending a roughly 15-year relationship. Ken Miyagishima, the mayor of Las Cruces, said the decision to switch to U.S. Bank came after residents at two council meetings expressed concerns about the bank's practices.

“Never have I seen residents so inclined to come to a council meeting to discuss who we bank with,” Mr. Miyagishima said. “This obviously was something they felt very passionate about.”

## **The Wall Street Journal**

By Heather Gillers and Emily Glazer

June 17, 2018 8:00 a.m. ET

— Gretchen Morgenson contributed to this article.

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### **Rise in Single-Rated Municipal Bonds Spurs Investor Concerns.**

A trend toward single-rated municipal bonds has accelerated this year, raising concern among investors who were accustomed to two or three rating agency opinions to support their purchasing decisions.

Single-rating transactions represent about a quarter of new sales by par value so far this year, a 17.5% increase from the rate in all of 2017, according to a report this month from independent research firm Municipal Market Analytics.

The trend, driven by the need for cost savings as underwriting spreads narrow, has been underway since the financial crisis. That in turn has heightened the competition to provide ratings, as a fourth agency — Kroll Bond Rating Agency — made inroads in serving muni issuers along with Moody's Investors Service (MCO), S&P Global Ratings, and Fitch Ratings.

“If rating agencies lower their standards to appeal to issuer ‘rating shoppers,’ they essentially risk diluting their reputation and relevance,” Richard Ciccarone, chief executive officer and president of Merritt Research Services, said this week.

Perhaps the most concerning aspect of the trend, buy-side experts said, is that issuers have an incentive to opt for the highest single rating, which cuts down on transaction costs, but can deny investors comprehensive credit research, disclosure, transparency, and surveillance that was the norm for decades. The trend toward single opinions also reduces issuers' accountability, the experts said.

“Since rating criteria are more transparent than ever, it is easier to pick a rating that might favor a borrower based on how it stacks up with agency criteria, pre-screening and existing ratings,” Ciccarone said. “Having one rather than two or more ratings becomes a risk especially to less sophisticated investors if issuers are shopping for only the ratings that cast them in the best light.”

According to MMA analysts Matt Fabian and Lisa Washburn, the single-rated market has increased to 25% — up from only 13.4% of the par issued that carried one rating back in 2007.

Dual and triple-rated transactions — those rated by Moody's, S&P, and Fitch — dropped by 4% year to date to 36.1% and 32.3%, respectively, the report showed.

Triple-rated, dual-rated, and non-rated transactions also shrank during the first five months of 2018 from 2017 levels, the report showed.

“We see little evidence that this trend will abate — at least in the near to medium term,” the analysts

wrote.

In aggregate, there were 1.94 ratings per dollar of par issued year to date in 2018, compared with 1.97 in 2017 and 2.29 in 2007, according to the MMA data.

Due to a changing market, issuers have to worry about keeping their fiscal houses in order, and controlling costs is part of that equation, Ciccarone said. "Lower margins on underwriting and a greater urgency to hold down issuance costs puts more pressure on issuers considering whether two or more same grade ratings is worth the price."

The trend toward single-rated deals raises the possibility of rating shopping, said David Litvack, head of tax-exempt research of U.S. Trust.

"Whenever I see a bond rated by only one agency, I have to ask myself, 'Did the issuer do this to save on rating fees, or would the other agencies have rated this bond lower?' "

Other analysts said the impact will vary for different investors.

Mark Tenenhaus, director of research at RSW Investments, said while most buyers prefer two ratings, most retail investors do not distinguish about the number of ratings on a transaction, and don't look askance at issues just because they are single-rated.

"It is no longer a stigma for quality credits," he said.

In addition, seasoned issuers with one rating do not present an issue, as buy side firms rely on their own analytics, according to Tenenhaus.

"Buy side analysts can typically tell if an agency was dropped because of a lower historic rating or threat of one," he said, adding that the larger investors are the best prepared for a continuation of the trend.

"While the rating agencies provide value with their reports, institutional buyers rely on their own assessments," he said.

Ciccarone said there are probably fewer institutional investors that require two or more major agency ratings than there were years ago.

The need is diminished, he said, since "they exercise and tout the strength of their own research teams.

"Over the past 10 years, institutional investors have been building stronger research efforts on their own, including quantitative screen and credit scoring capabilities that reinforce and enhance their own ability to distinguish credit quality and defend those positions with clients — and even regulators," Ciccarone said.

While institutional investors do have their own credit teams, that doesn't alleviate all concerns, especially in the secondary market.

"If an issuer is an infrequent borrower and only rated by one agency, we are concerned that no one has looked at the credit in detail for several years," said John Donaldson of Haverford Trust.

He said the firm passed on a recent offering for a municipality that had not issued bonds since 2012.

"The lack of transparency was compounded as the sole rating agency has a policy that the issuer

was too small for them to assign an outlook,” Donaldson said. “That is when only one rating is a real issue for us.”

Some experts said the competition among rating agencies has intensified as Kroll made inroads.

“While some time ago Fitch was the new kid on the block, now there is a fourth agency at a time when one-rating-only gains traction,” Donaldson said.

Ciccarone agreed that not only Fitch, but KBRA has made more “inroads” in the rating sector lately and that has helped the trend of shopping for ratings “gain traction.”

Other factors that can drive the market share of single-rated deals are sector and state issuance trends, MMA said.

S&P remained the lead rating agency in terms of market share, rating 74.1% of the year to date par issued, compared with 71.1% and 48.8% for Moody’s and Fitch, respectively, based on Bloomberg data included in the firm’s report.

While S&P also dominated single ratings with 55% of the par year-to-date, it was the only one of the three agencies that saw a decline in overall market share, from 77.1% in 2017.

The analysts said that was thanks to a surge in issuance of gas prepayment bonds, a sector primarily rated by Moody’s and Fitch.

At the same time, however, S&P was the sole rater on New Jersey’s \$3.1 billion refunding of its tobacco securitization bonds earlier this year.

In addition, the other agencies got exposure to large deals where Moody’s didn’t provide a rating.

For instance, Chicago-related issuers and the state of Connecticut didn’t seek a Moody’s rating on several large 2018 sales, the MMA report noted.

“Moody’s loss was Kroll’s gain as the newest agency rated the majority of par associated with these transactions,” the MMA analysts said.

Overall the analysts revealed both an upside and downside in the trend of single-rated transactions.

“Curtailing costs related to borrowing is even more important in the current environment in which expense growth is generally outpacing revenue growth for state and local governments,” they wrote.

Institutions may see less impact, the analyst predicted.

“Fewer ratings means a reduced risk that rating methodology and opinion changes will crop up and undermine pricing,” according to Fabian and Washburn. When this does occur, they said the changes “could be more impactful since there are fewer alternate public opinions.”

“In theory, this reduced rating agency penetration could mean greater investor influence on pricing, although we suspect that this will not be the case in the current market where demand outstrips supply,” they added.

On the downside, the analysts believe there are pitfalls as well.

“Fewer constraints on borrowing reduces fiscal discipline and may encourage ill-advised borrowings for deficits, pensions, OPEBs, and riskier economic development projects versus budget balancing by

raising revenues or reducing expenditures.”

For the buy-side, MMA said the non-professional investor is the most disadvantaged by the trend toward fewer, higher ratings.

“This group is generally more inclined to place greater weight on ratings and are less likely to handicap the positive effect of issuer-selected opinions,” the analysts wrote.

Rating agencies’ participation in new transactions, whether through single or multiple ratings, is still seen as a vital part of the municipal market, Ciccarone said.

“Independent and credible rating agencies still remain critical players in an active, efficient, and transparent municipal trading market, as well as essential to proper bond pricing.” Ciccarone said. “It’s a challenging environment for rating agencies.”

By Christine Albano

BY SOURCEMEDIA | MUNICIPAL | 06/12/18 07:05 PM EDT

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## **[These States Spend the Most Public Funds Per Person.](#)**

If there’s one thing every taxpayer wants to know, it’s how their money is being spent. In the case of the Trump Cabinet, the answer is fairly simple: luxury travel, golf, and (in Scott Pruitt’s case) a soundproof privacy booth with pretty fountain pens.

However, not every state official can live quite so lavishly on the taxpayer’s dime. In high-tax states like Maine and Ohio, residents have a right to see how much is going to education, health care, and other essentials.

The U.S. Census Bureau can help here. With the most recent data (published May 2018) at our disposal, we can see which states spend the most on their residents — and how. Here are the 15 state governments that spend the most per capita.

[Continue reading.](#)

## **Culture Cheat Sheet**

Eric Schaal

June 14, 2018

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## **[Know This Fact Before You Buy A Muni Bond.](#)**

When looking for municipal bonds to buy, there are numerous details to study before pointing and clicking to buy or telling one of the few live brokers still around to pull the trigger. Let’s go through the steps with a recent example.

Pulaski Community School District in Wisconsin came to market with a new issue. The bonds offered

were 3% due March 1, 2022, CUSIP: 745763KU5, rated Aa3 by Moody's with an extended settlement date of July 2, 2018.

That Pulaski is in Wisconsin is a good thing. Also the district is just 18 miles from Green Bay—also good. Its tax base is growing, there's low unemployment, the area's economy is stable, there's a surplus in the general fund, more reserves will be added in 2018 and 2019, there's modest debt, the main source of revenues is property taxes and state aid. All are good signs.

What isn't so good is that there are just 3,740 students in the Village of Pulaski and the issue size is just a meager \$2.3 million with a maturity size of just \$100,000. That's the killer.

You can have all the fundamentals, all the statistics and ratings align with the municipal universe. But if you don't have the liquidity, then nothing else matters.

Just think if you had purchased \$25,000 of this \$100,000 maturity—and if you ever needed to sell it, who would buy it? Probably another unsuspecting retail investor who was unaware that this was a tiny issue with a microscopic maturity size.

I'm not saying that there wouldn't be any bids for this bond. I am saying that if the bid is from someone knowledgeable, then they will want to get paid significantly more yield for the lack of liquidity.

Here's another example: Dallas-Fort Worth Texas International Airport Revenue, 4% due November 11, 2027, CUSIP: 235036XG0, rated A1, A+, A+. The issue size is \$274.9 million, maturity size is \$4.51 million.

The fundamentals are all good as follows: This is the primary airport for the Dallas-Fort Worth area, it is the fourth busiest airport in the world by aircraft movements and twelfth busiest by passenger traffic. Debt service coverage in 2017 was 1.46 times with 714 days of cash on hand.

The size of your bond maturity is important. It potentially provides liquidity. But so does demand for quality bonds such as this. If we—as money managers—or you ever decide to sell these bonds, they'd be snapped up in a minute. Dealers can easily attach a bid, confident that this is a large issuer. The Dallas-Fort Worth Airport is a matcher for most institutional portfolios. Matchers are matching names portfolio managers already own. They don't necessarily need the same coupon or maturity but they want the same issuer.

Institutional holders in the various series (maturities) include Teachers Insurance, Sun life, T. Rowe Price, Hartford Financial, Horace Mann...you get the idea. In the case of muni issuance—bigger is better.

## **Forbes**

by Marilyn Cohen

June 12, 2018

*Marilyn Cohen is founder and CEO of Envision Capital Management, a Los Angeles fixed-income money manager.*

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## **A Prescription for P3s: Cities Can Drive an Infrastructure Reboot.**

***Local leadership and P3s will transform crumbling infrastructure and build the cities of the future, according to mayors and capital investors.***

"We need an infrastructure reboot," said Steven Demetriou, chairman and chief executive officer of Jacobs Engineering Group, as he opened an afternoon plenary about infrastructure and public private partnerships (P3s) at the U.S. Conference of Mayors (USCM) 86th annual meeting.

Los Angeles Eric Garcetti and chair of the USCM Infrastructure Task Force, who was joined by Dallas Mayor Mike Rawlings, Emmitt Smith, chairman of E Smith Advisors and E Smith Legacy Holdings, and Joe Aiello, chair of the board of the Massachusetts Bay Transportation Authority (MBTA), said Washington, D.C. has stalled on infrastructure since January 2017. But cities have passed \$230 billion since that time.

Garcetti addressed how the city's Office of Extraordinary Innovation at Metro has pushed the private sector to develop solutions instead of the city putting out an RFP for a dictated solution. Being entrepreneurial, and not prescriptive, about solving problems creates P3s that propel projects forward, he said.

[Continue reading.](#)

**efficientgov.com**

by Andrea Fox

June 15, 2018

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## **Fitch: U.S. Public Power Peer Review Highlights Capex, Coverage Trends.**

Fitch Ratings-New York-15 June 2018: U.S. public power utilities are generally seeing a continuation of strong financial trends, with the exception of weaker debt service coverage, according to Fitch Ratings' 2018 U.S. Public Power Peer Review.

"While the latest peer review shows that lower ratios of capital investment to depreciation, as well as the retention and redeployment of excess cash flow, are improving utility balance sheets, coverage medians broadly weakened in 2017," says Dennis Pidherny, Managing Director, U.S. Public Finance. The weaker coverage metrics were reported against a backdrop of rising fuel costs and interest rates.

Trends highlighted in the 2018 peer review include:

- Debt service coverage weakened for wholesale and retail systems across nearly all rating categories, reversing an earlier trend.

- The capex-to-depreciation trend continued downward for wholesale systems, with the median for 'A' rated systems falling below 100% for the second year in a row. Median's for retail systems were mixed, but remained at levels lower than observed earlier this decade.

- Cash on hand medians for 'A' rated retail and wholesale systems continued to improve and are at

the highest levels observed this decade. Although medians for 'AA' rated retail systems declined again, the level is well above historical medians. This trend and the lower capital investment rates likely reflect slower demand growth and the continued deferral of certain capex.

-Leverage metrics remained remarkably stable for both retail and wholesale systems across rating categories.

Fitch's U.S. Public Power Peer Review is a point-in-time assessment of Fitch-rated public power utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail public power systems, and rural electric cooperatives. It is accompanied by the 2018 Fitch Analytical Comparative Tool (FACT) for Public Power, an interactive tool that provides enhanced trend analysis and peer comparison tables.

The full report, "2018 U.S. Public Power Peer Review," is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Fitch U.S. Public Power Criteria Revision.**

Fitch Ratings finalized its new criteria for U.S. public power systems, the changes of which are detailed in a new report and companion piece. 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 Limited**

Fitch expects criteria-driven rating changes to affect less than 10% of the portfolio, with a roughly equal mix of upgrades and downgrades. 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 elevated operating risk

### **Rating Changes More Predictable**

In a sector characterized by low default risk, insight into an issuer's vulnerability to adverse conditions and credit deterioration is of paramount importance. The revised criteria more clearly define and communicate Fitch's expectations of the range of performance within which a rating is expected to be stable, versus conditions which could prompt a rating change.

### **New Through-the-Cycle Tools**

Fitch is incorporating forward-looking tools into the rating process. Revenue sensitivity and scenario

analysis tools work together to consider both the expected 'base case' financial performance within a typical business cycle and the 'rating case' potential financial performance given a moderate downturn. Known as FAST, this tool highlights how cycles affect issuers differently, and will be publicly available during the criteria comment period.

### **Experienced Analytical Judgment**

Fitch's ratings will continue to be based on the judgment of a team of experienced analysts rather than model-based outcomes. Given the diverse characteristics and wide range of U.S. public power credits, Fitch believes there are clear limits to the degree to which data points and formulas can define them.

### **Clearer Communication of Credit Opinions**

The goal of the revised criteria is to communicate Fitch's credit analysis more clearly, presenting well-defined opinions about both rating conclusions and the underlying fundamentals. This will provide greater differentiation among credits, increased insight into what could trigger a rating change, and facilitate comparison of Fitch's credit opinions with others in the marketplace.

### **Focused Key Rating Factors**

Three focused key rating factors replace the traditional inventory of credit considerations to highlight the role that each plays in determining credit quality. The information that Fitch reviews is largely unchanged; however, the way this information is incorporated into integrated and transparent analysis is much improved.

### **Tailored Versus Generic Expectations**

As part of an integrated analytical approach, expectations are linked to issuer-specific risk factors. For example, rather than having a blanket level of liquidity or leverage judged to be consistent with a given rating category, Fitch considers the issuer's fundamental financial flexibility and sensitivity to downturns against an issuer-specific assessment of revenue defensibility and operating cost flexibility.

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## **Fitch: U.S. State Spending Pressure Will Rise on Higher Healthcare.**

Fitch Ratings-New York-13 June 2018: Rising healthcare costs and retirement rates will increase budgetary pressure on US state and local governments, Fitch Ratings says. Our scenario analysis would see the share of state and local budgets that are allocated to healthcare and pensions rise by 800bps by 2025. Lower-rated states and local governments have lower financial flexibilities, making their budgets more sensitive to these pressures.

Fitch developed a simplified, 10-year scenario analysis of aggregate state and local budget allocations. This scenario analysis assumes healthcare and pension expenses grow rapidly and no offsetting policy is implemented. By 2025 the increased share of state and local budgets spent on healthcare and pensions would be met with a decline in pro-rate spending on education, transportation, public safety, housing and environmental programs.

These trends could affect the credits of lower-rated states and local issuers over the long term, as they begin the 10-year scenario time frame with lower fiscal flexibility and above average spending pressures. A few state and local issuers also have high tax rates. These factors mean state and local governments may cut education and transportation spending, as healthcare and pension expenses rise. Higher tax rates may also make raising revenue more politically challenging.

Over the long run these trends could amplify state and local exposure to demographic and market shifts. Marginal declines in population, personal income and investment returns could have a more substantial effect amid lower budgetary flexibility. Local governments are most vulnerable to declines in property values.

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

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### **Fitch: China Slowdown Would Pressure Some U.S. States.**

Fitch Ratings-New York-15 June 2018: If a slowdown in China's economy led to a decline in US exports, several states with substantial agriculture exports and one with aircraft exports would likely see localized declines in economic activity and, thus, tax revenues, says Fitch Ratings. However, we would expect states with a high volume of imports from China would not be affected.

Fitch's economics team recently conducted an analysis, China: Deleveraging Would Mean Slower Growth, assessing the macroeconomic effects on China from a corporate deleveraging scenario. While not our base case, the scenario suggests business investment growth would need to fall by 5% per year, relative to the baseline, to stabilize the corporate debt/GDP ratio by 2022. This would reduce GDP growth by just over 1% per year, taking China's real GDP growth rate to around 4.5%.

Such a slowdown would have a limited effect on overall US GDP but would likely affect US export growth to China, with certain parts of the agricultural sector particularly exposed. Iowa's agricultural industry is a case in point. Approximately two thirds of the state's soybean exports, worth \$3.1 billion in 2016, were sold to China. The soybean total is approximately 1% of gross state product (GSP) and approximately 11.9% of the state's agriculture GSP.

Several other US states are also major exporters of soybeans. Illinois' soybean exports accounted for approximately \$2 billion of Illinois' \$5.2 billion in 2016 exports to China, while Minnesota's soybean exports are about half this dollar amount. However, Illinois' and Minnesota's state economies are large and diverse and agricultural exports account for a smaller portion of their GSP than is true for Iowa.

A wide range of exported vehicles and vehicle parts could also be reduced by a slowdown in China and Washington state would be the most exposed. The state's exports to China were 2.2% of state GDP in 2016, or \$11.7 billion, and heavily concentrated with aerospace products and parts accounting for \$8.8 billion of this amount.

Conversely, imports from China to the US might not be as severely affected by a Chinese slowdown as purchases of US export goods by Chinese businesses and consumers. As such, states with large Chinese imports should not be directly affected by a Chinese deleveraging scenario.

If a decline in exports was to persist into the medium term, we believe such a decline could also lower business activity and sales and income taxes derived from both business activity and employment in some US states.

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## **We Forgot to Mail the Check and Other Municipal-Bond Excuses.**

- **Bond issuers forgot to pay 119 times since January 2017**
- **In most cases, payment was made to holders within a week**

It's a promise almost as old as debt itself: The check's in the mail.

People forget to pay a bill now and then. But it happens with surprising regularity by states and cities that owe money to investors in the municipal-bond market, one of the world's safest havens.

A small Wisconsin school district was late because it didn't know where to send a check. New York's

capital city cited an accounting error when it shortchanged its monthly debt payment. Even Pennsylvania was delinquent. They had plenty of company. Municipalities inadvertently missed or were late to make payments to investors at least 119 times since the beginning of last year, according to public records.

These aren't monetary defaults - where an issuer is unable to pay — they're mistakes, quickly rectified and often accompanied by intense embarrassment. It's usually because of a clerical error, staffing changes or a typo in an email or trustee address. In most cases payments were made within a week without penalty, but the steady rate of lapses raises false alarms and creates headaches for analysts on Wall Street paid to gauge real — not phantom — risks in bondholder portfolios.

"There is typically one or two a week. It's extremely common," said Matt Fabian, partner at Municipal Market Analytics. "It happens constantly. When you're dealing with small, unsophisticated governments that's what happens."

## **No Paperwork**

When a school district of Augusta, Wisconsin, missed a payment in September, red-bolded letters on the bottom of the disclosure document said that the previous financial manager retired and, according to the new manager, there "was no paperwork to show me who to make the check out to or where to send the payment."

The one-square mile Village of Oxford, Michigan, had personnel turnover last summer "and the ship was without a captain for a while," said Joseph Madore, village manager, causing the town to make its payment 10-days late. "They let the manager go in March and the clerk retired in June, and that was everyone who knew anything about it. They were scrambling."

The forgetfulness isn't limited to small one-man shops in rural America. Mississippi missed interest and principal payments on a call option due to a "clerical error" last June. Albany, New York paid \$30,000 less than what the debt service required when officials accidentally sent \$565,106.25 to the Depository Trust Company instead of \$595,106.25.

Boston officials "inadvertently neglected" to transfer \$6,940.63 to their paying agent although it was prepared in advance. Due to an "oversight" the funds were distributed six days late, according to the delinquency notice. Pennsylvania had a late payment on its Build America Bonds in 2017, a misstep Fabian said was noteworthy because mistakes by large, state-level issuers are unusual.

Such bureaucratic blunders aren't limited to simply forgetting to pay the bills. A clerk in Detroit once lost a \$1 million check until it was found in a city hall desk drawer a month later. There was, of course, the worker in Hawaii who accidentally panicked the island-state by sending out a false alert of an incoming ballistic missile.

## **Debt Collector**

When Joe Citizen fails to pay his credit card bill, he racks up steep penalties, can see his credit score plummet and may find himself in the sights of a debt collector. That's not the case with local governments.

Usually it doesn't cost the town anything, as long as the late bill gets paid quickly. There isn't any overarching rule or regulation that gives issuers a grace-period if they are late making a payment. It's a case-by-case basis described in the contract between the issuer and trustee.

One small town learned the hard way not to make the same mistake twice. Maine, New York, missed

two payments in the last year. S&P Global Ratings on Thursday put the town of 5,200 on a negative outlook, saying that if it happens again it could face a multi-notch downgrade to its credit score.

These missed and late payments usually are not concerning if there was a reasonable reason, such as a technical glitch or bad weather, said John Bonnell, a portfolio manager at USAA who oversees \$4.2 billion in municipals from San Antonio, Texas. "What it does raise is what kind of procedures and controls are in place?" he said.

Some towns take that notion to heart and turn the misstep into a learning experience. Jamesville Fire District in New York revised its payment procedures to include additional district trustees in the payment process as an safeguard. Back in the village of Oxford, officials sat down and drafted a schedule of all outstanding bond issues and their payment dates after it paid ten days late in July.

"It's not going to happen here anymore, not while I'm here," said Oxford's Madore. "That's for sure."

## **Bloomberg**

By Danielle Moran

June 15, 2018

— *With assistance by Amanda Albright*

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### **[Skittish Muni-Bond Investors Are the Worst at Timing the Market.](#)**

- **Individual returns on funds lag more than any other sector**
- **Morningstar study reinforces susceptibility to 'headline risk'**

The municipal-bond market is dominated by individual investors, and it turns out they're not nearly as good as the pros.

Over the past decade, individuals earned an average of about 1.26 percentage point less annually on their investments in open-end state and local government bond funds than the funds themselves, according to a study released by Morningstar Inc., which took account of what investors make after shifting their money in and out of the market. That gap was the biggest among the eight asset classes the research company examined.

Even though state and local government debt is one of the world's safest investments, buyers are still prone to so-called headline risk, or bad news stories that undermine the market's perception as a haven and cause investors to sell when they should stay put.

That happened in 2010, when banking analyst Meredith Whitney triggered a selloff by predicting that recession-battered governments would default on "hundreds of billions of dollars" of bonds. That forecast proved widely off the mark, and in 2011 municipals returned 11 percent. They haven't had a better year since.

Puerto Rico's debt crisis — which was unique to the Caribbean territory — also drove investors away from municipal securities at the wrong time, according to Russel Kinnel, Morningstar's director of manager research.

"You had the Meredith Whitney '60 Minutes' interview, predicting mass bankruptcies in Muniland or

mass defaults, and that scared the hell out of people even though it was a ridiculous prediction,” said Kinnel. “Then you had Puerto Rico, which was real. It’s just that in the case of Puerto Rico, from a fund perspective, it was not a big deal because most of the good funds had very little or nothing in it to begin with.”

The study estimates what individuals earned after shifting money in and out of their funds and then compares it with the performance of the funds overall. It found that the asset weighted return for individuals in open-ended funds was 2.23 percent annually for the 10-year period ending March 31, compared with a 3.49 percent average return for muni bond funds.

Since municipal bonds don’t trade heavily, spikes in inflows or outflows can have a larger impact on prices than in other markets and trigger a self-reinforcing cycle: A wave of selling driven by bad news can cause a second exodus when investors see their subsequent returns, Kinnel said.

“For skittish investors, it doesn’t take much,” he said, adding that fund companies and planners need to do a better job reassuring investors.

Municipal bonds are heavily weighted toward longer maturities, making them more sensitive to changes in interest rates. While investors have been putting money into the funds recently despite the Federal Reserve’s rate increases, they yanked \$65 billion from the vehicles between June 2013 and January 2014 after then-Fed Chair Ben Bernanke jarred bond buyers with plans to scale back asset purchases, an event known as the “Taper Tantrum.”

In addition, municipal-bond funds are typically sold based on their yields. Higher-yielding funds that buy riskier bonds may get hit harder in an economic downturn, Kinnel said.

Morningstar’s annual study, titled “Mind the Gap,” measures the performance of the average dollar invested in a fund and estimates the impact investor behavior had on investment outcomes.

To calculate fund investor returns, Morningstar adjusts official returns by using monthly flows in and out of a fund and asset-weights the returns to get an average for an asset group. In all asset classes overall, the average open-end investor lagged behind the average fund by 0.26 percent.

“The basic idea is we know people aren’t necessarily there for the whole five or 10 year period,” Kinnel said. “They move in and out and want to take a look at how that timing works.”

To be sure, the goal for investors is to get a good return in absolute terms. They likely don’t look at the gap between their own returns and those of the funds in which they invest.

“I could have a small gap on a really bad fund,” Kinnel said.

## **Bloomberg Markets**

By Martin Z Braun

June 15, 2018, 6:18 AM PDT

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**[The Week in Public Finance: For State Budgets, What a Difference 6 Months Make.](#)**



***Thanks in large part to a steady economy, states are finishing 2018 better than they expected.***

After two straight years of lackluster revenue growth, state finances are on the upswing thanks in large part to a stable economy and a one-time boost from December's federal tax overhaul.

As fiscal 2018 comes to a close on June 30 in most states, total revenue growth for the year is estimated at 4.9 percent. That's the best year since 2015, according to the latest state fiscal survey from the National Association of State Budget Officers (NASBO).

The numbers bear that out: Only nine states have been forced to make mid-year budget cuts compared with a whopping 22 last year. Cuts totaled just \$830 million in fiscal 2018; a year ago, states had to cut \$3.5 billion to balance budgets. And 19 states have increased spending this year to the tune of \$1.6 billion, which boosted total spending growth by 3.4 percent or to \$835 billion.

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | JUNE 15, 2018

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## **[Will New Federal Rules Slow PACE Financing?](#)**

[Read the report.](#)

**Florida Realtors | Jun. 15**

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## **[Renewable Energy Tax Credit News Briefs - June 2018](#)**

The Colorado Department of Revenue issued Colorado Private Letter Ruling No. PLR-18-002 April 12. The PLR provides guidance on the state renewable energy investment tax credit (ITC). The PLR concluded that the taxpayer, an entity included in a combined report, can claim refundable enterprise zone renewable energy ITC refunds up to the refundable cap of \$750,000 per year for as many years as needed to use the refundable amount. In addition, for investing in renewable energy sources in an enterprise zone, the taxpayer owns and operates all renewable energy investment assets of the project. Instead of claiming the ITC as a credit against income tax, the taxpayer may receive a cash refund equal to 80 percent of the tax credit. The balance of the refundable ITC may be carried forward each year, up to the yearly cap, until fully used.

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The U.S. Energy Information Administration (EIA) issued mid-April its report, "Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2016." The study showed that federal energy subsidies fell between 2013 and 2016. Wind and solar subsidies fell from \$15.5 billion to \$6.7 billion from 2013 to 2016, with the production tax credit (PTC) dropping from \$1.7 billion to \$1.4 billion, and the ITC dropping from \$2 billion to \$1.2 billion. The report is an update based on fiscal year 2016 data and continues a series of EIA reports on federal direct financial interventions and subsidies into energy markets. The report is available at [www.energytaxcredits.com](http://www.energytaxcredits.com).

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Xcel Energy's \$1.6 billion plan for a 1.2 gigawatt (GW) expansion was approved by Texas regulators April 27, a month after approval from New Mexico regulators. Xcel's Hale project in Texas and its Sagamore facility in New Mexico will provide a combined 1 GW and are expected online in 2019 and 2020, respectively. Xcel expects to begin construction in June on the 478 megawatt (MW) Hale wind project, and construction on the 522 MW Sagamore wind project will begin next year. Xcel anticipates the two projects will create approximately 600 construction jobs and 40 to 50 full-time positions. The two facilities will qualify for 100 percent of the PTC.

## **Novogradac Journal of Tax Credits Volume 9 Issue 6**

Friday, June 8, 2018

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### **[S&P Global Ratings Green Evaluation.](#)**

Green Bond issuance skyrocketed in 2017 for a 5th year running to \$155 billion, up from a mere \$13 billion in 2013. 2018 is likely to continue on a similar trajectory as long-term investors are recognizing the threat from greenhouse gases and are diversifying portfolios away from carbon-based investment.

[Continue Reading](#)

Jun. 14, 2018

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### **[How Public Finance Can Make Universal Internet Access a Reality.](#)**

From education to accessible public spaces, fire departments and mass transit networks, many of the essential public services we rely on daily are provided by our local governments. A reliable and affordable Internet connection has become another essential public "good" as individuals and cities fight to keep pace with a harsh, fast-moving economy. The Internet is the 21st century equivalent of the transcontinental railroad, interstate highway system, Panama canal and public school and library systems all rolled into one. So why have we settled for a few private companies controlling how and where we get access and how much we pay? Local governments should build publicly-owned local broadband networks and issue bonds to borrow the money they need. This is the solution we've been looking for to provide affordable and equitable Internet access.

#### **Why build your own network?**

The Internet is the essential conduit for commerce, information and ideas, as well as a driver of economic growth and a shaper of culture. But in a system where corporate earnings guide decisions about where to run cables and build towers, not all Americans have equal access to the Internet. Ten percent of Americans—roughly 32 million people—have no broadband access (25 Mbps/3 Mbps service). But for rural populations, it's about 39 percent.

For much of the 20th century, policies and regulations ensured broad access to the essential public services of the time. Interstate highways were intended to be toll-free, railroads were barred from using monopoly power to take advantage of the farmers who relied on them to transport their crops,

and public schools and libraries were open to all who lived in the community whose tax dollars supported them.

[Continue reading.](#)

## **Neighborly**

Posted 06/12/2018 by Eva Arevuo

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## **Muni Market Recap: It Was All About G-7 and Central Bank Governance Meetings.**

G-7 and Central Bank Governance meetings dominated the headlines this week.

Here's what the Central Banks did:

- US Federal Reserve raised rates by 25 basis points from 1.75 to 2 percent and had a Hawkish tone
- Bank of China did not raise rates and the recent economic data is pointing towards slower growth
- European Central Bank did not change rates but laid out further steps to reduce Quantitative Easing (QE) measures in December of this year
- Bank of Japan did not raise rates and given their low inflation plans to continue with their quantitative easing policy

Elsewhere, the Trump Administration tariffs aimed at Chinese high tech industries — such as robotics, aerospace, industrial machinery, and automobiles — are driving continuing fears of a trade war between the United States and China.

Municipal bonds were just along for the ride and activity was light as the potential shifts for global interest rates continues to be digested.

Neighborly was focused and stayed the course towards giving communities the ability to borrow money they need, when they need it. Neighborly Securities brought to market \$19.8MM of tax-exempt Municipal bonds for the City of Salinas, CA for the new [El Gabilan Library Project](#). The Library complex will be a center of a community based in Agriculture and Government services. The bonds are supported by the Measure E Sales Tax initiative.

The new library is designed with a community focus that features an outdoor children's zone, a teen area, a homework help area and an outdoor patio and amphitheater.

The project was unanimously approved by the Salinas City Council in May of 2018. Construction on the project is expected to take 16 months and will begin in July 2018.

Posted 06/15/2018 by Homero Radway

## **Neighborly Insights**

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## **Public Service Over Debt Service: The Implicit Lien Senior To Municipal**

## **Bondholder Rights.**

The primary role of municipalities is to provide essential public services; this responsibility does not change, even in the advent of a bankruptcy. Recent bankruptcy court rulings in Detroit, Stockton and now Puerto Rico have made municipality priorities clear: when governments are in distress, bondholders can hope for post-default recoveries pennies and cents on the dollar that was originally promised. Bondholders must be reminded that the core of successful municipal bond investing is thorough, deep and objective credit research. Covenants and legal provisions only offer credit protection if the borrower is economically and financially solvent; in the advent of a bankruptcy, public services will always come before debt service obligations.

Investors in Detroit, Stockton, and now Puerto Rico looking to the legal covenants as their ultimate safety net are missing two critical points: First, fundamental economics and good governance are primary credit drivers; covenants and security provisions are not. Second, municipalities will always need to provide essential public services over anything else.

These three bankruptcies are prime examples of where economics and governance failed, ultimately diminishing bondholders' secured rights. In each place, weakness in these credit drivers foreshadowed problems years in advance.

Take Detroit. Poor governance practices (just one example: envelopes with tax payments were found in a closet—in a fire station), the realignment in the auto industry resulted in manufacturing job losses and a massive population exodus. Evidence of the city's demise were visible well before the situation became dire, but we continued to lend.

Stockton's reliance on overly optimistic projections of tax revenues based on ever-rising home values—leading to overspending and over-borrowing—also foreshadowed the final result. And we continued to lend.

Puerto Rico's loss of manufacturing jobs, rising deficits papered over by borrowing and opaque financial reporting all started a full decade before the 2008 Recession finally stripped away all pretense of a functioning economy or government. And we lent a total of \$75 billion to the island's government and its public corporations.

In each case—Stockton, Detroit and Puerto Rico—there were perceived-and-assumed-strong legal provisions to preserve and protect bondholders. In each case, the bondholders fought vociferously but to no avail. They received significantly lower recoveries than the strongly worded documents suggested.

Covenants and legal provisions only offer credit protection if the borrower is economically and financially solvent. This is why the core of municipal bond investing has been and remains thorough, deep, and objective credit research with a laser focus on the key drivers of financial performance. Despite investor optimism, none of these borrowers passed key credit screens.

Not that the bondholders didn't try mightily to persuade the Court to enforce those covenants and legal provisions. After all, bankruptcy is about contract impairment and lien prioritization. The Court is legally bound to draw conclusions from the facts and apply appropriate legal criterion in its judgment. But there is another, higher criterion that it also weighs.

When a municipality files for bankruptcy, it doesn't just roll up the streets and shut down town hall. Before, during, and after bankruptcy, a municipality has to keep providing public services. The trash is picked up, police and firemen still respond to emergencies, street lights stay on, commuters travel

to work and children go to school.

Paying bondholders doesn't do any of those things. In a municipal bankruptcy, the final feasibility test for the Court's approval is: Can the municipality provide these critical public services once the plan is approved? Therein lies the implicit lien senior to all other liens and claims.

When it comes down to public service versus debt service, public service will prevail.

Barnet Sherman is the Director of Municipal Impact Credit Research at [Neighborly Investments](#), a first-of-its-kind Impact Asset Manager.

Posted 06/13/2018 by Barnet Sherman

## Neighborly Insights

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### [Seven Thoughts When Considering Troubled Hospital Deals.](#)

Those who follow hospital and health system M&A activity know that the market has been "frothy." We all see the high profile, "sexy" deals that appear in the news headlines but, for every large deal, there are myriad smaller deals that involve rural hospitals, county hospitals and, sole community hospitals, many of which are struggling, often both operationally and financially. These deals, despite their size, often are strategically important for the involved parties and, due to the financial issues many are facing, extremely complex.

Below are seven thoughts relevant to the acquisition of, or affiliation with, troubled hospitals:

**Cash is Often King:** Often, one of the biggest hurdles to acquiring a troubled facility is the drain on cash it is experiencing. Generally, credit lines are maxed out and the hospital's bond rating is poor, making it difficult to borrow, especially if cash flow is anemic. This often puts deals in jeopardy because there is always the risk that the target will run out of money prior to closing. This situation may require the acquirer to agree to provide financing to the target hospital; doing so often requires negotiation with bond trustees or with senior lenders who will likely insist on strict subordination agreements, with no guarantee that the loans will ever be recouped or repaid. Care should be taken to carefully prescribe the use of the financing proceeds so that they are applied in the most effective fashion (as noted below, however, the antitrust laws still apply during the period between signing and closing, which limits the control the acquirer can exercise over the target's operations). The acquirer should be prepared to walk away from its loans should the transaction, ultimately, fail either because the target will not have the wherewithal to repay the loans and/or the loans will be deeply subordinated to senior indebtedness.

**Diligence is Incredibly Important:** It goes without saying that diligence in hospital deals is important, but it is even more so in the context of the acquisition of a troubled hospital. In our experience, struggling hospitals lack the resources to carefully monitor compliance or hire appropriate legal counsel; worse yet, some take aggressive approaches to their relationships with referral sources and reimbursement. The acquirer will generally inherit many of the liabilities of the target (including its Medicare and Medicaid reimbursement liabilities), and because (as described below) indemnification is financially impracticable or unlikely, most of these deals are, what we like to call "diligence deals;" the decision to acquire a troubled hospital is, and should be, premised upon the strength of, and results of, the acquirer's diligence efforts.

**The Law Still Applies:** Despite the fact that a hospital is troubled and its survival depends upon some sort of successful acquisition or affiliation, the parties must bear in mind that the various laws surrounding their existence, operations, and acquisition still apply. For example, the acquisition could be subject to state certificate of need laws, and will most certainly be subject to state licensure and registration laws, all of which are subject to statutory timing and waiting periods and can slow down the acquisition process. Depending upon the state involved, and how critical the hospital is to care in its community, it may be possible to seek local or state government intervention to accelerate these time periods, or expedite review. Moreover, and more importantly, the parties should keep in mind that federal and state antitrust laws apply, especially during the executory period (e., the period between signing of a definitive purchase agreement and closing). Often, in light of the precarious financial position in which a target hospital might find itself, there is a desire for the two parties to work together to start fixing problems even before the deal closes. While laudable, and something that would seem to make perfect sense from a business perspective, the parties are well advised to seek legal counsel to ensure that they don't engage in so-called "gun jumping," which can lead to per se violations of federal and state antitrust laws.

**Peculiarities Relative to Government Health Care Entities:** We've seen a number of transactions involving government health care entities, such as county hospitals or health care district facilities. The acquisition of, or affiliation with, these entities will carry its own set of issues. First, and foremost, many of these entities are subject to state open records, or "sunshine," laws such that certain meetings, or documents, relative to the proposed transaction may be subject to public disclosure and scrutiny. Moreover, approval of many of these transactions may require public notice and a public meeting. In addition, acquirers need to be sensitive to the fact that decision makers may include community members who sit on county or district boards, many of whom, while civic minded, may not possess strong health care business acumen and may be motivated by the "politics" or optics of the transaction. Finally, care must be taken to review state law to ensure that there are not specific statutes or rules relative to acquisition of governmental health care entities; for example, some states require that all employees of the target be granted the opportunity to stay or, or that the acquirer agree to satisfy all outstanding liabilities of the acquired entity, etc. In addition to the above, county/district hospitals often have loyal constituencies. The fate of these hospitals is often of great importance to the communities they serve. Thus, and this probably goes without saying, it is often vital that the acquiring entity have a good story to tell as to why the combination makes sense, and this story should revolve around maintaining or increasing the quality and continuity of care to the patients, along with helping the employees retain their jobs. It is important to remember that these facilities often hold a prominent place in the communities they serve and, often, are one of the largest employers. Thus, the story to be told should be compelling. Even more important is the story that will be, or should be, told in the event the transaction fails. Consistent, realistic communication is appropriate in these circumstances.

**Deal Planning:** Almost as important as the economic and regulatory aspects of trouble hospital transactions is the deal planning. We say this because, often, time is of the essence for some the reasons described above. Thus, we believe that in conjunction with diligence efforts, smart acquirers plan ahead to deal, on a timely basis, with issues such as union contracts, physician compensation that may need to be adjusted, leases and the like. Failure to adequately plan for the issues that may arise related to the above sorts of matters can significantly slow down a transaction, thus putting further strain on the target.

**Bankruptcy as an Option:** Depending, of course, on the circumstances, there may be some wisdom in considering the use of a bankruptcy proceeding as a means of facilitating a transaction. Depending upon the nature of the target hospital—non-governmental versus a governmental entity—the bankruptcy proceeding may be subject to either Chapter 11 or Chapter 9 of the Federal

Bankruptcy Code. The determination about which type of bankruptcy proceeding (Chapter 9 or 11) a particular hospital entity qualifies for can be fact intensive and complicated, so it should be conducted by experienced counsel at the earliest opportunity. The distinction can be significant because, as a general rule, Chapter 11 proceedings (non-governmental entity proceedings) are somewhat more predictable and provide more established mechanisms to protect a potential buyer of assets. For example, the common method of selling assets through the bankruptcy process involves the use Section 363 of Chapter 11 of the Code to sell assets free and clear of liens and encumbrances. Chapter 9 does not have an analogous provision, though the few courts to have considered the matter have allowed sales to proceed in Chapter 9 under applicable state law. Under Section 363, the proposed buyer can become a “stalking horse” bidder, whose proposed purchase must be made subject to higher or better bids at a court sponsored auction, though subject to certain types of court approved bid protections. Thus, the stalking horse bidder risks losing the bid despite its work and efforts. Moreover, while a Section 363 sale can allow certain liens, executory contracts and other liabilities to be avoided and/or renegotiated, the Centers for Medicare and Medicaid Services take the position that if the acquirer assumes the Medicare provider agreement of the target (which is a common approach in many of these transactions) the bankruptcy proceedings will not extinguish pre-closing Medicare liabilities or obligations, such as overpayment obligations. Another significant difference between Chapter 11 and Chapter 9 proceedings is the ability of a debtor under Section 363 to sell assets free and clear of most pension liabilities. Again, no analogous power is found in Chapter 9, though in the Detroit Chapter 9 case, the court did allow some modification of pension benefits, as part of a final plan of reorganization, not as part of an asset sale.

**Alternative Strategies:** Sophisticated acquirers are well counseled to consider strategies that may be alternatives to acquisitions. For example, depending upon the market, it may be smarter simply to compete against the struggling entity rather than trying to acquire it. The idiom “be careful what you wish for” might be apt in certain situations. There is often a mission-driven desire, on the part of the acquirer, to save a struggling system, which is understandable. However, if an acquisition puts the acquirer at risk, it is necessary to re-examine the thesis of the deal and whether or not it is simply smarter to help the population of patients and employees of the target by them with an alternative.

Although sometimes smaller and involving fewer dollars than hospital deals that make headlines, troubled deals are a fact of life in health care and carry with them their own sets of complexities. The above list of considerations is but a few that will arise.

## **Foley & Lardner**

by William McKenna & Roger Strode

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## **[Short Term Rental, Long Term Impact: Municipal Regulation of AirBnb and Homesharing.](#)**

Travelers across the world have embraced short term rentals from platforms such as AirBnb, VRBO, and HomeAway as a unique option for accommodations. These homesharing websites offer travelers an opportunity to stay in a place with all the comforts of home, often for a much cheaper price than a few nights at a chain hotel. Hundreds of short term rental listings are currently posted online for stays in neighborhoods around Pittsburgh and Allegheny County.

While homesharing provides a valuable benefit to short-stay travelers, it poses numerous concerns



for local municipalities. For example, parking and noise complaints from the neighbors of short term rental properties have poured into municipal meetings. Borough councils and township boards of commissioners, with assistance from their municipal solicitor, are challenged to come up with a system to regulate short term rentals within their communities.

Attempts to regulate short term rentals most often begin through enforcement of a local zoning ordinance. A typical municipal zoning ordinance might establish where a hotel or bed and breakfast may be operated as a principal permitted use or by special exception within certain zoning districts. The Pennsylvania Commonwealth Court, however, has held that a short term rental use for a residence is distinguishable from a hotel or bed and breakfast. The Court has recently reversed four trial court decisions and held in favor of property owners' operation of short term rentals, where the local zoning ordinance did not specifically address a short term rental use.

In one of these cases, *Slice of Life, LLC v. Hamilton Twp. Zoning Hearing Board*, an appeal was granted in February 2018 by the Pennsylvania Supreme Court. 180 A.3d 687. In *Slice of Life*, the property owner did not live at the property and used it solely as an income-producing short term rental. The township zoning officer issued an enforcement notice, citing the owner for violating the zoning ordinance by operating the single family dwelling as "transient lodging."

The trial court upheld the zoning hearing board's denial of appeal of the enforcement notice. The Commonwealth Court reversed, and held that the owner's use of the property was consistent with its existence as a single family dwelling. 164 A.3d 633 (Pa. Cmwh. Jun. 21, 2017). Because the township zoning ordinance did not define the terms "single family," "transient tenancy," or "transient lodging," the Court held that the ordinance was ambiguous and should be interpreted in favor of the owner and against any restriction on his use of the property.

The Pennsylvania Supreme Court's forthcoming opinion in this case will be instructive to municipalities in confirming whether zoning ordinances should be amended to address short term rental uses. In the meantime, many municipalities are heeding the advice of the Commonwealth Court, which stated in *Slice of Life* that "[e]nterprises such as AirBnB have expanded the possible uses of single-family dwellings and a township can address such uses in the zoning ordinance." *Id.* at 642. In other words, if a municipality is concerned about the existence of short term rentals within its borders, it should proactively regulate their existence through amendments to the zoning ordinance.

Outside of its zoning ordinance, a municipality can regulate problem short term rental properties through enforcement of its parking or noise control ordinances. Standalone ordinances can also be enacted to regulate permitting and inspection of homes that are marketed as short term rentals.

Before listing a property for rent on homesharing websites, homeowners should check with their local municipality to ensure compliance with any recently enacted requirements for short term rentals. Furthermore, the Allegheny County Treasurer requires that all owners operating a short term rental register for the collection of the County's Hotel Room Rental Tax. In 2016, Allegheny County amended its Hotel Room Rental Tax ordinance to allow for booking agents such as AirBnb to collect and remit the required Hotel Room Rental Tax directly on behalf of the homeowner.

As homesharing grows in popularity, municipalities and their solicitors will continue to work on finding the best means to regulate the long term community impact of short term rentals.

**Tucker Arensberg, P.C.**



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## **Municipal Bonds Weekly Market Report: Fed Expected to Raise Rates Again**

MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.

- Treasury and municipal yields mostly saw increases this week.
- Muni bond funds are back to inflows this week.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

Brian Mathews

Jun 12, 2018

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## **A Quick, Bipartisan Fix for America's Slow Infrastructure Permitting.**

Fixing America's aging infrastructure is one of the most reliably [popular](#) policy ideas out there, so why do we seem to make so little progress on it? In short, we've made the process of planning and carrying out infrastructure projects extremely difficult. Building new roads, levees, and rail lines requires conformity to layers of permitting requirements and regulations. While much of the burden comes from local and state approvals, the federal permits needed for large projects can take years to procure and often lead to further delay. To give a sense of the magnitude of the problem, a set of reform proposals released by the group Common Good in 2017 was titled ["Two Years, Not Ten Years."](#) Beyond permitting, other factors, [lack of financing](#), [high construction costs](#), and [failed coordination](#) between states and municipalities can all mean concrete never gets poured.

Fortunately, federal permitting reform is among the few issues that Congress has been able to address in a bipartisan manner in recent years. Most importantly, in December 2015 Congress passed (and President Obama signed into law) the [Fixing America's Surface Transportation Act \(FAST Act\)](#), which [reauthorized](#) and funded federal highway programs for five years. Title 41 of the Act, which incorporated a Senate bill sponsored by Senators Rob Portman (R-OH) and Claire McCaskill (D-MO), established a Federal Permitting Improvement Steering Council (FPISC). FPISC is meant to provide a "one-stop-shop" capable of coordinating permits across different federal agencies, thereby streamlining and shortening the overall process for some large projects.

[Continue reading.](#)

**The Brookings Institute**

Philip A. Wallach and Nick Zaiac

Friday, June 8, 2018

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## **How a Florida Utility Became the Global King of Green Power.**

**NextEra became a renewable-energy Goliath using tax subsidies to help finance projects around the country and avoiding debt—staying quiet about it all**

Who is the world's largest operator of wind and solar farms? It's also America's most valuable power company. Still stumped? It's by design.

"That is a marketing problem...that we foster intentionally," Michael O'Sullivan, NextEra Energy Inc.'s head of renewable development, told University of Notre Dame students in 2015.

The Florida company has grown into a green Goliath, almost entirely under the radar, not through taking on heavy debt to expand or by touting its greenness, but by relentlessly capitalizing on government support for renewable energy, in particular the tax subsidies that help finance wind and solar projects around the country. It then sells the output to utilities, many of which must procure power from green sources to meet state mandates.

[Continue reading.](#)

### **The Wall Street Journal**

By Russell Gold

June 18, 2018

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## **Is The Muni Bond Market Positioned For Its Moment In The Sun?**

**As we kick off the historically positive summer months for the muni market, investors could see higher returns - but may have a hard time finding bonds.**

The passage of Memorial Day has officially ushered in summer: the season of backyard barbecues, pool parties and municipal bond redemptions. The three months beginning in June are often characterized as a heavy reinvestment period - the municipal market finds itself awash with cash as bonds mature, pay coupons or get called (meaning, the bond is redeemed by the issuer prior to its maturity). This year seems to be no exception, and a dearth of new bond issuance could drive negative net supply lower than what we saw in recent years. While this technical backdrop should support municipal bond prices, it could also introduce new challenges for investors trying to put money to work.

After its worst start in over two decades, the municipal bond market could be poised for a turnaround. The historically favorable summer months are upon us, along with the expectation for higher volumes of coupons and principal payments that investors will want to reinvest. Such heavy seasonal redemptions are certainly not a new trend, and they provide the market with a strong and reliable source of demand. However, that money may be chasing a shrinking pool of bonds if recent supply trends persist. Municipal bond issuance dropped 23% year-over-year and was at a four-year low through April 30. Market observers expect supply to remain light through the summer as Wall Street bankers head out on vacation and few issuers bring new financings to market. JPMorgan (NYSE:JPM) suggests that the combination of robust reinvestment capital and anemic new issuance

could result in a negative net supply of -\$76 billion between June and August: a change of 44% over last year and 91% over the trailing five-year average.

Such favorable technical conditions – more money potentially coming into the market than new bonds being sold – should also set the stage for stronger investment returns. The Bloomberg Barclays Municipal Bond Index returned a disappointing -0.33%<sup>1</sup> this year, but prices have historically bounced back as June's cash flows get reinvested amid scarce supply in July and August.

If negative net supply estimates materialize and exceed that of past years, returns could be even better. But the supply shortage could also make sourcing bonds far more difficult. Lack of issuance in the primary market should drive buyers to the secondary market where dealer inventories have shrunk considerably since before the financial crisis. As a result, individual bond buyers will likely find themselves paying more for a dwindling pool of available bonds.

### **Bottom line**

We believe the recent underperformance of the municipal market offers an attractive entry point for investors ahead of what could be a strong performance period, and more dollars chasing fewer bonds should drive prices up and support total returns. However, this same dynamic will likely cause frustration among individual bond buyers who struggle to put their investment dollars to work. Professional management can provide broader access to investment opportunities with more efficient execution.

Municipal securities will be affected by tax, legislative, regulatory, demographic or political changes, as well as changes impacting a state's financial, economic or other conditions. A relatively small number of tax-exempt issuers may necessitate investing more heavily in a single issuer and, therefore, be more exposed to the risk of loss than investing more broadly. Income from tax-exempt municipal bonds or municipal bond funds may be subject to state and local taxes, and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal income tax rules will apply to any capital gains.

### **Seeking Alpha**

By Catherine Stienstra

June 12, 2018

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## **[Think Your State Is Ready for the Next Recession? Better Check This Fund First.](#)**

***State unemployment insurance trust funds were decimated during the last recession. A decade later, many still don't have the funds to weather the next downturn.***

States have done a lot over the past decade to be better financially prepared for the next recession. But one area many have ignored is — ironically — their unemployment insurance programs for laid-off workers.

More than half of states' unemployment insurance trust funds don't have enough money in them to

weather the next economic downturn, according to the most recent [federal report](#) on the funds. Of the 28 that don't meet the minimum solvency level recommended by the U.S. Department of Labor, a whopping 11 have less than half of the funds needed to meet a downturn.

The lack of recovery in many funds more than a decade after the last recession began is alarming given that many think time is running out on the current economic expansion. "If there's another bad recession like the last one," says Christopher O'Leary, a senior economist at the W.E. Upjohn Institute, "states, on average, are not prepared."

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | JUNE 14, 2018

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## **[For an Increasing Number of Governments, One Credit Rating Is Plenty.](#)**

***A decade ago, most sought two or three ratings before selling their bonds. Not anymore.***

For years, governments paid for the extra cost of getting multiple credit ratings when they sold bonds, mainly to appease the investors who bought them. But now, more and more governments are forgoing multiple ratings in favor of just one — and 2018 is shaping up to be the biggest year yet for the trend.

Through the first five months of this year, 25 percent of bond sales have involved just one credit rating, according to data analyzed by the research firm Municipal Market Analytics. That's far higher than the 13 percent rate a decade ago and the 20 percent average over the past few years.

Lisa Washburn, a managing partner at Municipal Market Analytics, says she expects the trend to continue, especially since issuances with just one rating don't appear to be penalized with higher interest rates.

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | JUNE 8, 2018

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## **[S&P: The Transition To Secured Overnight Financing Rate From LIBOR Could Add Credit Risk For U.S. Public Finance Issuers.](#)**

The London InterBank Offered Rate (LIBOR) has been a global index rate in many financial structures for decades. An estimated \$350 trillion in derivatives, loans, mortgages collateralized loan obligations, swaps, commercial paper, and other debt types are tied to the rate.

[Continue Reading](#)

Jun. 7, 2018

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## **U.S. Muni Bond Market Slips to \$3.843 trln in First Quarter - Fed**

NEW YORK, June 7 (Reuters) – The U.S. municipal bond market dipped to \$3.843 trillion in the first quarter of 2018 from \$3.863 trillion the previous quarter, according to a report from the Federal Reserve released on Thursday.

Households, or retail investors, held \$1.640 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, falling slightly from \$1.641 trillion in the fourth quarter of 2017, the Fed report said.

U.S. banks' muni bond buying dropped. Financial institutions shed \$56.7 billion in the first quarter, compared with adding \$37.5 billion in the fourth quarter.

Property and casualty insurance companies took on \$13.6 billion of munis in the first quarter after relinquishing \$2.0 billion in the fourth quarter. Life insurance companies picked up \$7.5 billion of the bonds compared to \$6.4 billion the last quarter.

U.S. mutual funds bought \$53.8 billion of munis in the first quarter, a sharp increase from \$29.5 the previous quarter, while exchange traded funds were down \$2.8 billion from \$7.5 billion.

(Reporting by Laila Kearney Editing by Bill Berkrot)

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## **SIFMA Research Quarterly, First Quarter 2018**

Long-term securities issuance totaled \$1.80 trillion in 1Q'18, a 4.6 percent decrease from \$1.88 trillion in 4Q'17 and an 11.5 percent decrease year-over-year (y-o-y) from \$2.03 trillion. Issuance decreased quarter-over-quarter (q-o-q) across all asset classes except Treasury, corporate, and equity while y-o-y, issuance decreased across all asset classes except federal agency.

Long-term public municipal issuance volume including private placements for 1Q'18 was \$67.6 billion, down 53.8 percent from \$146.4 billion in 4Q'17 and down 27.4 percent from \$93.1 billion in 1Q'17.

The U.S. Treasury issued \$580.0 billion in coupons, Floating Rate Notes and Treasury Inflation Protected Securities in 1Q'18, up 8.3 percent from \$535.5 billion in the prior quarter but 11.3 percent below \$654.1 billion issued in 1Q'17.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations, totaled \$444.3 billion in the first quarter, an 8.1 percent decrease from 4Q'17 (\$483.2 billion) and a 2.6 percent decrease y-o-y (\$456.1 billion).

Corporate bond issuance totaled \$380.7 billion in 1Q'18, up 19.3 percent from \$319.2 billion issued in 4Q'17 but down 21.0 percent from 1Q'17's issuance of \$481.9 billion. Of 1Q'18 corporate bond issuance, investment grade issuance was \$319.1 billion (83.8 percent of total) while high yield issuance was \$61.6 billion (16.2 percent of total).

Long-term federal agency debt issuance was \$177.7 billion in the first quarter, slightly down from \$207.9 billion in 4Q'17 but up 7.6 percent from \$165.1 billion issued in 1Q'17.

Asset-backed securities issuance totaled \$77.8 billion in the first quarter, a decrease of 49.6 percent q-o-q (\$154.5 billion) and a 34.4 percent decrease y-o-y (\$118.5 billion).

Equity underwriting increased by 8.2 percent to \$59.5 billion in the first quarter from \$55.0 billion in 4Q'17 but down 1.3 percent from \$60.3 billion issued in 1Q'17. Of the total, "true" initial public accounted for \$16.1 billion, up 36.6 percent from \$11.8 billion in 4Q'17 and up 44.8 percent from \$11.1 billion in 1Q'17.

[Download the Report.](#)

## About the Report

A quarterly report containing brief commentary and statistics on the U.S. capital markets, including but not limited to: municipal debt, U.S. Treasury and agency debt, short-term funding and money market debt, mortgage-related, asset-backed and CDO debt; corporate bonds, equity and other, derivatives, and the primary loan market.

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## [\*\*U.S. House Overwhelmingly Approves 2018 Water Resources Development Act; Senate On Tap Next for WRDA.\*\*](#)

### KEY TAKEAWAYS

- U.S. House overwhelmingly approves WRDA bill in a 408 to 2 vote.
- Popular WRDA bill does not include use of Harbor Maintenance Trust Fund.
- All eyes turn to Senate action on WRDA where a vote could take place in the coming weeks.

On June 6, the U.S. House of Representatives overwhelmingly passed the Water Resources Development Act (WRDA) of 2018 ([H.R. 8](#)) on a 408 to 2 vote.

The water infrastructure bill authorizes the WRDA, which controls federal navigation, flood-control, storm damage projects and feasibility studies across the United States. Once enacted into law, WRDA provisions must be funded through the federal government's annual appropriations process.

The final legislation, the bill did not include a provision on the Harbor Maintenance Trust Fund (HMTF) that was initially included in the bill. It would have allowed the full use of the HMTF for harbor maintenance purposes without further congressional appropriations by FY 2029. The HMTF provision was removed from the bill after the Congressional Budget Office reported it would increase annual deficits by more than \$5 billion over 10-years following its 2029 enactment date. The HMTF is a tax levied against importers and domestic shippers using ports and harbors in coastal and Great Lakes areas. Even though the HMTF is currently operating a large surplus, only a portion is appropriated by Congress annually for operations and maintenance in the nation's harbors.

Additionally, the bill directs the National Academy of Sciences (NAS) to consult with the Army Corps and other federal agencies to study the potential impacts of moving the Army Corps' Civil Works division out of the Department of Defense and "to a new or existing agency or sub-agency of the federal government" to carry out authorized WRDA projects and studies.

Across the Capitol, the Senate has been working on its own WRDA bill titled, America's Water Infrastructure Act of 2018 (S. 2800). Similar to the House bill, the [Senate version](#) does not include HMTF. Additionally, S. 2800 contains several Clean Water Act provisions on the U.S Environmental

Protection Agency's (EPA) Integrated Planning policy and Water Infrastructure Finance and Innovation Act. The Senate Environment and Public Works Committee approved the bill on May 22. Senate leaders indicated that the chamber will likely bring up the bill within the next several weeks.

WRDA is historically passed every two years. However, in the past decade, it has only been enacted three times, in 2007, 2014 and 2016. WRDA currently has a backlog of nearly \$100 billion worth of projects that have been authorized but have not received appropriations. If passed by Congress, the current WRDA legislation would be added to the list of projects awaiting congressional appropriations.

NACo supports congressional efforts to move WRDA back to a two-year authorization cycle. As major owners, users and regulators of water resources and infrastructure, counties are directly impacted by the policies and funding authorized by WRDA. The legislation addresses county interests related to ports, inland waterways, levees, dams, wetlands, watersheds and coastal restoration.

NACo resources:

NACo letter in support of H.R. 8, [click here](#).

## **National Association of Counties**

By Zach George

Jun. 7, 2018

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## **[Banks Reduce Municipal-Bond Holdings for First Time Since 2009.](#)**

- **Lenders cut their stakes by \$15.8 billion during first quarter**
- **Lower tax rates have lessened the appeal of state, local debt**

U.S. banks reduced their holdings of state and local government bonds for the first time since 2009 after the federal government slashed corporate tax rates, making the securities less valuable to one of the market's key buyers.

Figures released by the Federal Reserve Thursday show that the lenders' holdings of municipal debt dropped by \$15.8 billion during the first three months of the year to \$554.4 billion. The reduction marks a pullback from buyers that had been steadily expanding their ownership of state and local government securities since the end of the recession, helping bolster demand.

The data confirm the widespread view among Wall Street analysts that tax-exempt debt would be less alluring to banks after the corporate tax rate was dropped this year to 21 percent from 35 percent. Bank of America Corp., Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Co. were among those who pared their holdings, according to quarterly filings with the U.S. Securities and Exchange Commission.

The lower tax rate appears to have had less of an impact on insurance companies. The Fed reported that property and casualty insurers' holdings held steady at \$327 billion, despite cutbacks that were previously disclosed by some of the biggest companies.

**Bloomberg**



By William Selway

June 7, 2018

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## **Investors May See Losses of 17% on Otherwise Safe Hospital Deal.**

- **Mission Health System is in talks for sale to HCA Healthcare**
- **Provision allows at-par redemption if tax status is changed**

Mission Health System was likely viewed as a relatively safe bet for municipal-bond investors. The not-for-profit hospital system in Asheville, North Carolina, is rated investment-grade and its revenue has climbed in each of the last five years.

But if the system's proposed sale to for-profit HCA Healthcare goes through, investors could suffer losses under borrowing provisions that allow Mission to redeem certain debt at par in the event of a sale that changes the tax-exempt status of its bonds. And that's likely to raise questions about whether investors will continue to accept such provisions in bond deals.

Bonds sold in 2016 by Mission maturing in 2029, one of its most actively-traded securities, were priced at a premium of about 121 cents on the dollar. If the bonds are called at par, that would equate to a 17 percent loss for bondholders. The debt last traded at an average of 110.7 cents on the dollar on June 1.

### **'Deeply Unhappy'**

While the call provision isn't very unusual, the Mission deal is unique because the bonds are trading above par, said Michael Johnson, a research analyst at broker-dealer firm First Ballantyne LLC in Charlotte, North Carolina. Typically, the provision is used to protect investors so they can get their money back if a deal turns taxable, he said.

"In this case, it looks as if it's going to protect the actual company," Johnson said.

Bondholders are "deeply unhappy," said Joseph Rosenblum, director of municipal credit for AllianceBernstein, which according to Bloomberg data is a top holder of Mission's debt.

Questions about the value of such provisions are sure to continue given that mergers and acquisitions are common in the health-care industry, Rosenblum added. "We will likely see more of these," he said. "How much are we willing to accept going forward?"

### **Numerous Inquiries**

No decision has been made by Mission regarding how it will pay, redeem or defease its outstanding debt if the proposed deal goes through, Rowena Buffett Timms, a senior vice president for government and community relations at Mission, said in an emailed statement.

Mission has gotten "numerous" inquiries from investors on the call provisions, which were "clearly" disclosed in bond offering documents, the company said in an April 13 filing. "Mission assumes that (1) investors who purchased any of these bonds were aware of such call provisions and (2) the purchase price or yield at which such investors purchased these bonds (either at the initial offering or in the secondary market) reflected the redemption risks relating to such call provisions," the filing said.



Even if a sale to HCA doesn't go through, Johnson said Mission's bond prices are unlikely to improve given that the call provision will remain an issue, Johnson said.

"It's already proven it's up for sale," he said.

## **Bloomberg**

By Amanda Albright

June 7, 2018, 6:46 AM PDT

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### **Luxury Dorms Are Struggling to Fill Beds.**

- **Non-profits financed the projects with municipal bonds**
- **Some projects are seeing 'a little bit of stress,' S&P says**

Park West, a 3,400-bed student housing complex near the Texas A&M University campus in College Station has a resort-style rooftop pool, three gyms and lounges with billiard tables, ping pong and flat screen televisions.

What it doesn't have are students — or rather their parents — willing or able to pay as much as \$1,000 a month to live there. Just over half the beds at the complex, financed largely by tax-exempt municipal bonds, were filled during the last academic year.

About 360 miles (580 kilometers) north in Norman, Oklahoma, a 1,230-bed residence hall at the University of Oklahoma featuring a "blow dry bar and salon," a market with grass-fed local meats, and a cycling studio is just 26 percent leased, according to a securities filing. It opens in August.

"We have seen some projects go through a little bit of stress," said Jessica Matsumori, an analyst at S&P Global Ratings. S&P has rated about 60 privatized municipal student-housing deals, most of them BBB-, the lowest investment grade.

As universities tap outsiders to finance a dormitory arms race while keeping debt off the books, the Texas and Oklahoma projects underscore the risks to investors of overbuilding luxury accommodations as students and parents become more cost-conscious.

### **More Bonds**

Municipal-bond sales for new student housing projects backed only by rents grew to about \$930 million last year, a 45 percent increase from a decade before, according to data compiled by Bloomberg.

Unable to pay operating costs and service \$360 million of bonds with project revenue, the non-profit owner of the Texas A&M complex, National Campus and Community Development Corporation, agreed May 17 to give bondholders more control over the project. Texas A&M also agreed to advertise the complex on its campus housing website.

Last week, S&P downgraded \$250 million municipal bonds that financed the University of Oklahoma project to BB. Baton Rouge, Louisiana-based Provident Resources Group, the non-profit that financed the dorm, attributed weak demand to a "lack of creative marketing strategies" and higher rents than other housing, the ratings company said.

Greg Eden, a former public finance-lawyer at Kutak Rock and president and sole employee of Austin, Texas-based National Campus, didn't return calls seeking comment. Steve Hicks, also a former public-finance attorney and the chief executive officer of Provident, said his group will address the issues related to the S&P downgrade in the coming weeks and that bondholders will get timely updates.

National Campus has financed housing at Florida International University and Drake University in Iowa. It has also issued debt for a hotel and conference center at Texas A&M. Provident owns student housing at Kean University and Montclair State University in New Jersey, Towson University in Maryland, and North Carolina State University.

The projects are developed and managed by private companies.

### **Few Restrictions**

Few restrictions apply to tax-exempt financings by non-profit entities, said Mark Scott, a former head of the U.S. Internal Revenue Service's Tax-Exempt Bond Office. "The real question is why an entity that builds luxury apartments is entitled to non-profit status," he said.

Park West, which is closer to Texas A&M's 102,733-seat football stadium than to academic buildings, opened at the flagship school in fall 2017. The 5,200 acre campus, about 90 miles northwest of Houston, has more than 55,000 students and enrollment has grown at an average annual 2.7 percent per year, between 2005 and 2015.

A market study that accompanied the 2015 bond offering for Park West said there was ample demand for the project. But Park West only rented 54 percent of beds in the fall semester and 52 percent in the spring, according to S&P.

Management told S&P the market study didn't capture all the new housing supply coming on line in the area surrounding the campus. S&P downgraded the bonds eight levels to CCC in December.

Park West competes in a Class-A off-campus student housing market of 25,000 beds that grew an average of nine percent a year between 2014 and 2017, triple the annual enrollment growth at Texas A&M, according a market assessment commissioned by National Campus. More than 2,400 beds are slated for delivery in fall 2018.

"The top end of the market remains extremely competitive," according to an evaluation by Meyers Research. Rents declined 3.2 percent in 2017, the firm said.

### **Rents Down**

To fill beds, Park West cut rents on many units below \$600 a month, according to Meyers. Almost 90 percent of beds are pre-leased for the fall semester, but the revenue shortfall means that the project will need to draw on reserves through 2021 to pay debt service while gradually raising rents.

The forbearance agreement gives bondholders, led by Nuveen Asset Management, the right to review and approve budgets and get weekly leasing reports. Bondholders agreed to allow revenue to pay operating costs first and then debt service.

John Miller, Nuveen's co-head of fixed income, declined to comment. Nuveen owns 43 percent of the bonds, according to data compiled by Bloomberg. The Vanguard Group is the second-biggest holder with about 17 percent.

Vanguard spokesman Freddy Martino also declined to comment.

## **Bloomberg Business**

By Martin Z Braun

June 7, 2018, 5:58 AM PDT Updated on June 7, 2018, 7:27 AM PDT

— *With assistance by Sowjana Sivaloganathan*

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### **[A Template for Fixing America's Public Pensions.](#)**

***One city deep in the heart of horse racing country may have some lessons for the rest of the U.S.'s underfunded retirement systems.***

Kentucky, home to arguably the most famous annual horse race on the planet, has produced a lot of remarkable turnaround stories over the years. In May 2009, when the world was mired in a recession, a little-known contender called Mine That Bird had 50-1 odds to win the Kentucky Derby. In a competition that's earned its reputation as "the greatest two minutes in sports," the horse weaved past 18 other thoroughbreds to cross the finish line first.

A lesser-known dark-horse tale happened a couple of years later about 80 miles east of the derby grounds, still in Kentucky's equine country. Instead of a race, however, the odds were on whether Lexington's newly elected mayor would be able to bring the city's mismanaged pension system back from the brink of a crisis.

There was no such thing as a sure bet in this case. And yet the pension reforms that Mayor Jim Gray, a former construction company chief executive officer elected in 2010, has been able to achieve might serve as an example to other U.S. municipalities whose retirement systems are in deep debt. The Federal Reserve estimates that public pensions in the U.S. are underfunded by about \$1.6 trillion. Over the past several years, pensions have been battered by a stock market crash, a recession, and a wave of workers reaching retirement age.

[Continue reading.](#)

## **Bloomberg Markets**

By Amanda Albright

June 5, 2018, 2:00 AM PDT

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### **[How Long Can a State Go Without Repairing Roads and Bridges?](#)**

Mississippi's increasingly unreliable infrastructure — its crumbling roads and hundreds of deteriorating bridges that have been closed or weight-limited — is straining the state's businesses and local governments. It's no wonder, then, that they, along with transportation advocates and their allies, have pressed the legislature to do something about it. Yet year after year, lawmakers in Jackson have come up empty-handed.

This year was no different, even though lawmakers came tantalizingly close to a road improvement package. A week or so after they failed to pass a fix-up plan, Gov. Phil Bryant announced that the state Transportation Department would immediately shut down 83 locally owned bridges. Federal inspectors had found that the bridges — most of which were built with timber parts and located in rural areas — were deficient and unsafe for vehicular traffic. Since then, more bridges have been added to the list. All told, some 500 across the state are out of service.

“It is probably the No. 1 problem the citizens are talking about today,” says state Sen. Willie Simmons, a Democrat who chairs the chamber’s Highways and Transportation Committee. Two of the counties in Simmons’ Mississippi Delta district shut down more than 30 bridges each. Those closures can reroute residents on 40- to 50-mile detours, and they can prevent firefighters and paramedics from getting to residents quickly. “Everybody agrees that we have a crisis, and it needs to be addressed,” Simmons says. “The problem is, we need to find the ways and means to pay for it.”

[Continue reading.](#)

GOVERNING.COM

BY DANIEL C. VOCK | JUNE 2018

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## **[S&P: Too Soon To Determine How Nuclear And Coal Subsidies Will Affect Public Power And Electric Cooperative Utility Ratings.](#)**

On June 5, 2018, S&P Global Ratings said that imposing possible subsidies for some coal and nuclear power units could affect ratings on U.S. public power and electric cooperative utilities, but without a formal proposal to analyze, we cannot determine the credit impact at this time.

[Continue Reading](#)

Jun. 5, 2018

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## **[With Initial Support from NCPPP, FTA Issues Final Rule to Encourage Development of Transit P3s.](#)**

The Federal Transit Administration (FTA) recently announced the issuance of a [final rule](#) that describes new, experimental procedures to encourage increased project management flexibility, and new project revenue streams for public transportation capital projects. The rule, titled “Private Investment Project Procedures,” is also designed to spur innovation in project funding, efficiency and timely project implementation.

Notably, FTA’s primary goal behind in issuing this final rule, which takes effect June 29, is to address impediments to the increased use of public-private partnerships and private investment in public transportation capital projects. Particularly, FTA said, that it anticipates using the lessons learned from these experimental procedures to develop more effective approaches to including private participation and investment in project planning, project development, finance, design, construction, maintenance, and operations.

The new rule, allows public project sponsors to petition for modifications to some federal, non-statutory requirements that pose impediments to P3 development. NCPPP Executive Board Member John Smolen, partner at Nossaman LLP wrote in Nossaman's [Infra Insight Blog](#) that "FTA wants to encourage modifications to these federal requirements that will 'accelerate the project development process, attract private investment and lead to increased project management flexibility, more innovation, improved efficiency, and/or new revenue streams.'

"FTA is not trying to change the rules themselves," Smolen explained. "Rather, it is using a flexibility strategy that lends itself to project-specific sensitivity."

When FTA issued the [proposed rule](#) in July 31, 2017, the agency noted that it had sought to encourage the development of transit P3s by co-sponsoring with NCPPP to conduct "eight public workshops on P3s in transit and a one-day workshop for FTA employees. Each workshop attracted almost 100 participants and provided technical assistance to transit agencies, local officials, and consultants on legal and regulatory issues, financing, and contract matters related to P3s," FTA reported.

These workshops are just one example of the conferences, workshops, and other educational events NCPPP conducts each year to promote P3s as an efficient, cost effective procurement approach for many public projects. For more information about NCPPP's educational offerings, visit our [website](#).

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## **[S&P: U.S. Charter School Sector Continued To Stabilize In Fiscal 2017, As Median Financial Ratios Show Minimal Change.](#)**

S&P Global Ratings maintains 286 public ratings in the charter school sector. The key financial medians for U.S. charter schools were consistent with those from the prior year, reflecting both a slowdown of rated new issuances and the sector's stabilization within our rated universe.

[Continue Reading](#)

Jun. 7, 2018

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## **[Movement to Get Public Money Out of Wall Street Comes to Wall Street.](#)**

Winsome Pindergrass wants a better chance at securing financing to buy a home. At a June 5 rally in front of the New York Stock Exchange, the 59-year-old Brooklyn resident talked about how three-quarters of her monthly income goes to her \$2,200-a-month rent, which has nearly doubled since 2010. She's watched her neighbors get pushed out by rising rents.

"We don't even recognize our neighborhoods anymore," she said. "The affordable apartments are all gone, or they are disappearing fast."

Pindergrass was one of dozens of residents and community organizers who were gathered in front of the stock exchange, on Wall Street, to launch the [Public Bank NYC Coalition](#). Made up of more than two-dozen groups, the coalition is calling for the creation of a city-owned bank that would serve as the repository of all local taxes, fees, fines and other municipal revenue — in contrast with the current system in which around 20 banks are currently authorized to provide bank accounts for New

York City government as well as its various agencies and affiliated entities.

[Continue reading.](#)

NEXT CITY

BY ALINE REYNOLDS | JUNE 11, 2018

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## **U.S. Trade Policy Fears and the Specter of Stalled Growth Drive Market Volatility.**

### **Interest Rate Volatility**

Once again bond traders participated in a volatile interest rate environment week. U.S. 10 year interest rates bounced from 2.92 to approach 3.00% by mid week and then returned back to 2.92% by the close of trading today. The volatility this week was driven by policy fears, specifically that trade tension with US trading partners could stall the pace of economic growth.

### **Strong Demand for California Debt**

Municipal New Issue Supply was twice the YTD weekly average (\$4.9bn) with approximately \$10 billion coming to market this week.

California debt continues to have the strongest demand and California Municipal bonds continue to perform well, exemplified by the reception for \$1.1 billion California Municipal Finance Authority AMT deal. The purpose of the deal is to design, construct, finance and maintain a 2.25 mile elevated people mover system at LAX.

In addition, the borrowing rate in California is decreasing. AAA rated City of San Francisco bonds came to market in the 5 year part of the curve at 26 basis points through AAA National Benchmark. Just a month later, AA+ Southern California Metro Water came to market with a new issue on Tuesday June 5th at 28 basis points through benchmark rates.

### **Election Results**

On the policy front, the California voters approved a \$4.1 billion state bond measure in Tuesday's primary election. Neighborly is most excited about Prop 68 authorizing \$4 billion in general obligation bonds for state and local parks, environmental protection and restoration projects, water infrastructure projects, and flood protection projects. The measure requires that between 15% and 20% of the bond funds be dedicated to projects in communities with median household incomes less than 60% of the statewide average. The largest amount of bond revenue, \$725 million, was earmarked for neighborhood parks in park-poor neighborhoods.

Posted 06/08/2018 by Homero Radway

### **Neighborly Insights**

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## **States Finalizing Fiscal 2019 Budgets.**

As of June 8, 38 states have enacted a new or revised budget for fiscal 2019. 46 states begin fiscal 2019 on July 1 (New York began on April 1, while Texas begins on September 1 and Alabama and Michigan on October 1). 12 states have yet to enact a budget for fiscal 2019. In addition, another 2 states that previously enacted a two-year budget for fiscal 2018 and fiscal 2019 are currently considering a revised or supplemental budget proposal. Last year, 17 states enacted budgets covering both fiscal 2018 and fiscal 2019.

For the most current information on states' budget status, please visit NASBO's [state-by-state listing of proposed and enacted budgets](#).

Additionally, for summaries of governors' budget proposals for fiscal 2019 please [click here](#).

### **National Association of State Budget Officers**

By Brian Sigrity posted 05-09-2018

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## **Municipal Bonds Weekly Market Report: Unemployment Hits 18-Year Low at 3.8%**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Treasury and municipal yields all decreased again this week.
- Muni bond funds break the inflow trend with an outflow this week.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

### **municipalbonds.com**

by Brian Mathews

Jun 05, 2018

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## **Taxpayers Lose in the Bond Market When Local Newspapers Close.**

- **Academics find interest costs rise when newspapers close**
- **With less local oversight, investors may foresee more risk**

On March 14, employees at the Denver Post were ushered into a meeting and told that the paper's owner, hedge fund Alden Global Capital, was implementing a fresh round of cost cuts at the Pulitzer Prize-winning daily that would eliminate nearly a third of the newsroom staff.

That retrenchment isn't just costing employees their jobs. It may also cost Denver taxpayers the next time the city raises money in the bond market.

A study by economists from the University of Notre Dame and the University of Illinois at Chicago found that investors demand higher yields to buy the bonds of governments in metropolitan areas where newspapers have shut down. They argue that's likely because reducing the number of reporters rooting out mismanagement and corruption allows governments to run less efficiently, which is reflected in bond-market prices.

Pengjie Gao, a professor at Notre Dame's business college, and Dermot Murphy and Chang Lee of the University of Illinois analyzed the results from 204 counties where the number of newspapers dropped to two or less between 1996 and 2015. They then compared the yields on bonds from governments in those locales with those from counties that didn't see such closures.

They concluded that the shutdowns caused bond yields to rise between 0.05 and 0.11 of a percentage point. While that appears small, it can add up to a lot in a market where state and local governments borrow hundreds of billions of dollars a year. For a \$65 million debt issue, that amounts to about \$71,500 annually — enough to cover a teacher's salary — or about \$2 million over the life of a 30-year bond.

"That increase can really represent a higher cost to be paid to raise the same amount of money," Lee said.

The local newspaper industry has been decimated by the rise of the Internet. The industry lost more than half its jobs from 2001 through September 2016, cutting employment to about 174,000 from 412,000, according to the U.S. Labor Department.

That's left a major gap. It was the Los Angeles Times, not local law enforcement, that revealed that officials in Bell, an impoverished suburb, were rewarding themselves with massive pay packages — resulting in criminal charges. The Securities and Exchange Commission also came down on Harvey, Illinois after the Chicago Tribune ran a series of articles documenting mismanagement in the crime-ridden suburb.

JT Thompson, a portfolio manager at Aquila Group of Funds who oversees about \$400 million in Utah bonds, said he relies on local newspapers when judging whether there's support for a project being financed by municipal bonds — something that would diminish the risk of the project failing.

"There has been some really good finds that you can pick up because there's support in the community for a redevelopment area, and knowing that you know the tax base will be behind it — there's the value in the local papers," he said.

The cuts at the Denver Post comes less than a decade after its major rival, the Rocky Mountain News, shut its doors.

When newspapers can't bring their resources to local communities issues go uncovered, said Jesse Paul, politics reporter at the Denver Post. He called the business of journalism a food chain, in which a local paper reports on a topic, then it's expanded upon by a statewide paper such as the Denver Post and nationalized by a paper with multi state reach.

"If that food chain gets disrupted — whether it's on the small weekly newspaper level, up to the Denver Post, these towns become black holes."

## **Bloomberg Markets**

By Danielle Moran



## **Why Newspaper Closures Lead to Higher Government Costs and Inefficiency.**

**You know how democracy dies in darkness? A new study says bureaucratic effectiveness might, too.**

Local newspaper closures can lead to higher borrowing costs and more government inefficiency, according to a [working paper](#) made public last month—and the authors say it's bad news for cities and their taxpayers.

"[The findings] mean the taxpayers are paying higher expenses to finance the same projects," Chang Lee, an assistant professor of finance at the University of Illinois at Chicago and one of the study's authors, told Chicago. And when it becomes more expensive to borrow money, public works projects, like the construction of schools, hospitals, and roadways, might never even get off the ground, adds Dermot Murphy, also an assistant professor of finance at University of Illinois-Chicago and an author of the paper.

The idea for the study came from a 2016 Last Week Tonight with John Oliver segment on the implications of the decline of newspaper journalism, in which Oliver likens not having reporters at government meetings to "a teacher leaving her room of seventh graders to supervise themselves." Oliver's point was this: When a newspaper closes, the community loses an important watchdog.

[Continue reading.](#)

CHICAGO MAGAZINE

BY TERESA MANRING

PUBLISHED TUESDAY AT 11:56 A.M.

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## **The Places in the U.S. Where Disaster Strikes Again and Again.**

In the last 16 years, parts of Louisiana have been struck by six hurricanes. Areas near San Diego were devastated by three particularly vicious wildfire seasons. And a town in eastern Kentucky has been pummeled by at least nine storms severe enough to warrant federal assistance.

[Continue reading.](#)

THE NEW YORK TIMES

By SAHIL CHINYOY

MAY 24, 2018

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## **Lynne Bajema Testifies on GASB'S Revenue and Expense Recognition.**

On April 23, 2018, NASACT provided a [joint response](#) with the National Association of State Treasurers to the Revenue and Expense Recognition invitation to comment from the Governmental Accounting Standards Board.

On May 30, during the GASB public hearing on the Revenue and Expense Recognition ITC, Lynne Bajema, Oklahoma state comptroller, provided testimony on behalf of the association. Ms. Bajema is co-chair of NASACT's Committee on Accounting, Reporting and Auditing, and chair of the National Association of State Comptroller's Committee on Accounting and Financial Reporting.

Ms. Bajema testified that the overwhelming majority of NASACT members responding to the ITC agree that the exchange/non-exchange model is the best to classify transactions in a governmental environment. This model is similar to the current approach and will result in less room for misinterpretation when applying the standard since it builds on existing standards. Therefore, it would likely result in a more feasible and consistent implementation across entities.

Ms. Bajema further stated that preparers and auditors are familiar with the exchange/nonexchange terminology and have established processes and procedures for preparing and auditing financial statements using this model.

NASACT does agree that it would be effective to provide additional guidance for classifying and recognizing exchange and nonexchange transactions, including:

- Additional clarification on what is considered equal value;
- Clarifying at what point in time revenue should be considered "earned and reportable" for financial reporting purposes,
- Recognition of certain exchange transactions, one specifically mentioned was multi-year licenses.

Wednesday, May 30, 2018

NASACT

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## **Fitch: Natural Disaster Risk Varies for U.S. State & Local Government Ratings.**

Fitch Ratings-New York-29 May 2018: Natural disasters have become increasingly acute and chronic, which is presenting operational and financial challenges to some U.S. state and local governments, according to Fitch Ratings. The rating agency considers environmental factors in its U.S. public finance credit ratings through the lens of fundamental credit risk, as detailed in a new report.

The federal government approved \$130 billion in aid for natural disasters last year, a considerable 0.7% of the country's \$19.7 trillion economy. That said, financial support from the federal government is not guaranteed. Additionally, proposals by current and past administrations have been presented to address the burden of disaster recovery assistance on the federal budget. And although Fitch does not currently anticipate this, a pullback in the level of federal government aid would be viewed as a negative credit factor for state and local governments.

"The federal government's role in disaster response is critical in mitigating natural disaster risk for

ratings on state and local governments,” said Senior Director Michael Rinaldi.

Rating actions directly linked to climate change or natural disasters have historically been limited, a notable anomaly being Hurricane Katrina and subsequent downgrades of the state of Louisiana and affected areas. However, the damage to vital infrastructure and widespread repopulation that was seen during Katrina has become more commonplace, most recently with Hurricanes Harvey, Maria and Irma last year.

State governments’ exposure to environmental risk is limited thanks in large part to the sovereign powers bestowed on states under the U.S. government framework along with ample economic resources that ensure fiscal flexibility and resilience to event risks and systemic challenges. Local government ratings, by contrast, are more vulnerable to climate risk, particularly governments that encompass a small geographic territory or feature a concentrated revenue base. In response, local governments are incorporating environmental risk mitigation and adaptation strategies within long-term financial and capital plans more broadly than in the past.

“Local governments have history on their side in terms of showing financial resilience and prioritizing spending where needed, which in concert with federal and state recovery aid can mitigate credit risk to natural disasters,” said Rinaldi.

‘Environmental Risks in U.S. State & Local Government Ratings’ is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **[Teleconference Replay: Fitch Rates LINXS APM Project](#)**

Fitch Ratings hosted a call with investors to discuss its recent ‘BBB+ (EXP)’ of the California Municipal Finance Authority’s (CMFA) approximately \$1.2 billion senior lien revenue bonds. The proceeds of which will be used by the borrower (LAX Integrated Express Solutions, LLC (LINXS)) to construct an automated people mover at Los Angeles International Airport.

[Listen to the teleconference.](#)

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## **Fitch: SCOTUS Janus Ruling Impact Limited for State and Local Governments.**

Fitch Ratings-New York-31 May 2018: A potentially landmark Supreme Court ruling concerning public school teachers and right-to-work laws is not likely to have a meaningful effect on state and local government finances, according to Fitch Ratings in a new report.

Recent mass labor actions by public school teachers in several states are shedding light on the practical limitations state and local governments face in managing expenditures. Meanwhile, the SCOTUS is set to rule shortly in Janus vs. AFSCME Council 31, which could potentially eliminate the requirement that non-union public sector employees pay “agency fees” to contribute to the cost of collective bargaining and related activities. If the SCOTUS rules for the plaintiff, it would reverse a precedent-setting SCOTUS decision from 40 years ago.

28 states have adopted right-to-work laws. The Janus ruling, if favorable to the plaintiff, would convey this legal framework throughout the country. Regardless of the legal framework, state and local governments remain limited in their ability to control labor spending. ‘States with right-to-work laws that limit collective bargaining powers can still confront labor-related spending pressures,’ said Managing Director Amy Laskey.

Any change to expenditure flexibility that arises from the decision is likely to be incremental. ‘A productive and flexible working relationship can be achieved regardless of the legal structure, in which case the workforce evaluation is a neutral factor,’ said Laskey.

‘What Investors Want to Know: The Impact of a Changing Labor Environment on Credit Quality’ is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Fitch Updates Thermal Power Project Rating Criteria.**

**Link to Fitch Ratings’ Report(s):** [Thermal Power Project Rating Criteria](#)

Fitch Ratings-New York/Chicago/London-01 June 2018: Fitch Ratings has completed the annual update of its “Thermal Power Project Rating Criteria”. The update included refining the revenue risk key rating driver (KRD) assessment, and establishing a clearer link between the revenue risk assessment and indicative coverage guidance.

The update revises the Indicative Coverage Ratios Guidance table in Figure 5 by linking indicative

coverage thresholds to the revenue risk KRD. For projects with no merchant exposure and a stronger revenue risk assessment, the indicative coverage thresholds guidance is lowered to 1.5x for 'A-' rated projects, 1.3x for 'BBB-' rated projects and 1.15x and for 'BB-' rated projects. Revenues for projects with a stronger revenue risk KRD rely almost exclusively on contracted capacity payments from strong investment grade counterparties, with cash flows independent of dispatch levels, justifying using lower coverage threshold guidance. The indicative coverage guidance remains unchanged for projects with weaker and midrange revenue risk assessments.

The update clarifies that ratings at or below the 'B' category are guided by Fitch's ratings definitions and also the assessments assigned for all the qualitative key rating drivers.

The update also includes minor clarifications throughout the text and some editing changes.

Fitch does not expect any rating changes as a result of the updated criteria. The report replaces the June 8, 2017 version and is available at [www.fitchratings.com](http://www.fitchratings.com) or by clicking on the link above.

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## **[Biggest U.S. Banks Cut Municipal-Bond Holdings as Tax Rates Fall.](#)**

- **Shift may mark banks' first retreat from market since 2009**
- **Bank of America, Citigroup, JPMorgan, Wells reduced stakes**

More than a half dozen of the biggest U.S. banks reduced their holdings of state and local government bonds by billions of dollars after the federal government slashed corporate tax rates, making the securities less valuable to one of the market's key buyers.

Bank of America Corp., Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Co. together cut their stakes by \$7.8 billion during the first three months of 2018, according to quarterly filings with the U.S. Securities and Exchange Commission. State Street Corp., Morgan Stanley and First Republic Bank also reduced their municipal-debt holdings.

The figures show a significant pullback from buyers that had been steadily expanding their ownership of state and local government securities since the end of the recession, helping bolster demand. If the large banks are a guide, the quarter will mark the first time the industry has retreated from the \$3.9 trillion market since 2009.

“Definitely the tax change has reduced banks’ appetite for municipal bonds, although they’ll still be part of the mix going forward,” said Alan Schankel, managing director and municipal strategist at Janney Montgomery Scott.

The filings confirm the widespread view among Wall Street analysts that tax-exempt debt would be less alluring to banks after the corporate tax rate was dropped this year to 21 percent from 35 percent. Some of the selling may also have been encouraged by an accounting rule shift that allowed banks to make state and local debt available for sale rather than continuing to hold it to maturity, Tom Kozlik, municipal strategist at PNC Capital Markets, wrote in a report.

The selling may not continue at the same pace since the partial rollback of the Dodd-Frank law this year allows them to use the bonds to satisfy liquidity requirements, giving them an incentive to hold the securities. And the low default rate of municipal bonds will continue to make them a draw to banks that need to manage risk, said Scott Siefers, a bank analyst at Sandler O’Neill & Partners.

“Banks are going to try to prudently manage to maintain high credit quality within the portfolio but to also generate some income as well,” Siefers said.

But so far, the corporate tax cut seems to be having the biggest effect. By the end of last year, banks held a record \$570 billion of municipal bonds, making them the third largest buyer, according to Federal Reserve figures. While the Fed has yet to release first-quarter data, Barclays Plc analysts estimate that banks decreased their municipal-debt exposure during that time by a combined \$15 billion and will continue to pull back, albeit at a slower pace.

Among the biggest banks, JPMorgan reported the largest drop, with its holdings of municipals — which includes those for trading, available for sale and held to maturity — declining by about \$2.9 billion to \$54.1 billion as of March 31. Wells Fargo’s dropped by \$2.1 billion to \$59.3 billion during that time. Bank of America and Citigroup cut their stakes by \$1.5 billion and \$1.3 billion, respectively, the filings show.

Among rivals, State Street’s holdings dropped by \$1.8 billion, First Republic’s by \$1.3 billion, Morgan Stanley’s by \$363 million and Bank of New York Mellon’s by \$231 million.

Spokespeople for the banks declined to comment on changes in their municipal-debt holdings.

The tax cut made the securities far less valuable than they were previously to businesses. For example, yields on benchmark tax-exempt bonds due in 30 years were 2.9 percent Wednesday. That would have been equivalent to a 4.46 percent taxable yield under previous rates. But now it’s about 3.67 percent, less than what they could earn on top-rated corporate debt with similar maturity, according to a Moody’s Investors Service index.

Banks’ demand for municipal bonds may also be further diminished as the Federal Reserve raises interest rates. Dick Bove, a former banking analyst who now serves as chief strategist at Hilton

Capital Management, said tighter monetary policy may make banks extend more capital to making overnight loans, since that could be more of a draw if short-term rates rise faster than long-term ones.

"The yields on long-term securities have not kept pace with the yields on federal funds," Bove said.

## **Bloomberg**

By Michelle Kaske

May 31, 2018, 6:12 AM PDT

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### **[Coming Soon to Cleveland: Luxury Tower Built With Tax-Free Bonds.](#)**

- **The \$80 million junk-bond sale to finance non-profit project**
- **Offering comes amid strong demand for high-yield securities**

Taxpayers will be subsidizing a luxury apartment in Cleveland that's complete with a yoga studio, fire pits, pool and grill areas.

Not-for-profit Playhouse Square Foundation, which just hosted Disney's Aladdin and will soon be home to Broadway musical Hamilton, is using some of a tax-exempt, \$80 million junk-bond offering to finance a \$138.9 million, 34-story apartment tower. Once it opens in 2020, the Lumen will have 318 apartment units (including 12 penthouse units) and a parking garage as well as other amenities like a concierge entrance and fitness center, according to bond offering documents.

Though tax-exempt municipals often finance affordable housing projects, it's rare for debt with a tax break to finance luxury apartment buildings. The bonds will be sold through a local authority and the proceeds will be loaned to Playhouse Square, a non-profit company that will be responsible for repaying the debt.

The speculative bond deal is likely to fetch strong interest from buyers who have flocked to high-yield municipal funds. After releasing information about the bond sale, at least two investors contacted the foundation and are coming to Cleveland to visit later this week, Art Falco, chief executive officer of Playhouse Square, said in an interview.

The apartment complex will be located a short walk away from the foundation's center for TV and radio stations, theaters, art galleries, and the ballpark for the Cleveland Indians baseball team. Playhouse Square got its start during a movement four decades ago to save theaters built in the 1920s that were going to be bulldozed as television hurt the live-performance industry. The foundation now owns and operates 11 performance spaces, hosting more than 1,000 events with 1 million attendees in fiscal 2017, according to bond offering documents. It had \$70.5 million in revenue in the most recent year, with most of that coming from theater tickets.

Playhouse Square helped build a hotel in the 1990's and owns several offices in downtown Cleveland. It has a "full service" real estate services division that manages its properties.

"What we found was that we had to become a leader in some of these developments in order to see them to reality," Falco said.

Falco said he views the luxury apartment project as a "working endowment" that will provide the

foundation with a small return on its investment.

“It’s not dissimilar to taking some funding and investing it in the stock market as an endowment would do,” he said. The foundation, which has a \$24.1 million endowment as of fiscal 2017, has received \$95.3 million in pledges for a \$100 million fundraising campaign it started in 2014, according to bond offering documents.

While the foundation has a proven track record, it has little experience with residential property management, S&P Global Ratings analysts said in a report this month. The center’s work with both performing arts and real estate makes it unique, said analyst Gauri Gupta. The real estate arm adds to the diversification of its revenue stream, which is a positive, she said.

Risks facing investors include the foundation losing its “current national, regional and local reputation as a leading producer and presenter of the performing arts,” according to initial offering documents. The bonds will be a general obligation of the foundation, the S&P report says.

The developer is optimistic, with almost 100 people already expressing interest in the apartments, Falco said. “We feel that the project is going to be successful,” he said.

## **Bloomberg**

By Amanda Albright

May 29, 2018, 5:56 AM PDT

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## **[Seattle and Columbus Show How Cities Can Win.](#)**

### ***Turns out location isn’t everything.***

In the modern U.S. economy, prosperity depends more and more on creating successful cities. But what is success, and how can it be achieved? Seattle, Washington, and Columbus, Ohio, offer some clues.

In tracking the rise and fall of American cities, people often pay attention to population growth. It isn’t a perfect proxy for urban success, especially because many cities restrict new housing development and thus prevent their population from growing. But it’s definitely one important measure, because more residents equals a larger tax base.

It’s interesting, therefore, to look at which cities are growing and which are shrinking. The U.S. Census Bureau recently released its 2017 estimates for the country’s 25 largest municipalities:

[Continue reading.](#)

## **Bloomberg**

By Noah Smith

May 29, 2018, 3:00 AM PDT



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## **California Must Be Doing Something Right in Trump's America.**

***The president loves to hate on the Golden State, but the proof is in the profits.***

Just about every policy Donald Trump imposes to make his America great is opposed by the world's fifth-largest economy. That would be California, which is growing faster and outperforming the U.S. in job growth, manufacturing, personal income, corporate profits and the total return of its bonds. The most populous U.S. state, with 39.5 million people, supplanted the U.K. as No. 5 in the world with an equivalent gross domestic product of more than \$2.7 trillion, increasing \$127 billion last year, according to data compiled by Bloomberg.

Trump attributes the prosperity of the U.S. economy during his 17 months as president to his evisceration of environmental regulations and other consumer protections, abandoning the Paris climate accord, aggressively deporting undocumented immigrants, prohibiting people from certain nations (mostly majority Muslim) from emigrating to the U.S., prosecuting sanctuary cities for protecting immigrants, cutting taxes most for corporations and the rich, and appointing a Supreme Court justice who just wrote the 5-4 decision limiting the rights of tens of millions of workers.

Jerry Brown, California's longest-serving governor, takes the opposite approach, and his state thrives. California is the global leader among governments committed to safeguarding the planet from climate change. Corporate California's revenues from clean energy companies dwarf those of the other 49 states or any country. The state's auto emissions law, now contested by the Trump administration, is the nation's most stringent. The legislature voted to become a sanctuary state, preventing police from participating in federal enforcement or asking people about their immigration status. The same assembly also made California the first state to declare a \$15-an-hour minimum wage and to require solar panels on new homes. Its citizens approved Proposition 30, temporarily raising personal income and sales taxes to fund education.

California's 4.9 percent increase in GDP last year was more than twice the gain for the U.S. and enabled the state's jobless rate to slide to 4.2 percent, the lowest on record since such data was compiled in 1976. Per capita income since 2013 grew 20.5 percent, making California the perennial No. 1. Among the biggest states sharing the Trump agenda, Texas remains an also-ran with less than a third of California's \$31.8 billion in receipts from agriculture, forestry and fishing and \$63 billion less than California's \$289 billion in equivalent GDP as the nation's largest manufacturer, according to data compiled by Bloomberg. While the Texas unemployment rate is lower at 4.1 percent, California's is falling faster and its total workforce of 17 million is 37 percent greater and has increased 2 million during the past five years, more than any other state.

Investors also make California the best-performing state, with 462 native companies in the Russell 3000 index producing a 587 percent total return (income plus appreciation) during the past decade, 262 percent the past five years, 76 percent the past two years, and 27 percent the past year — easily surpassing the Russell 3000's total return of 371 percent, 154 percent, 59 percent, and 22 percent, respectively. In the market for state and local government debt, California also is superior, representing more than 20 percent of the No. 1 BlackRock Strategic Municipal Opportunities Fund, according to data compiled by Bloomberg.

Although the president said climate change is a Chinese hoax, California takes warming seriously. No country or state has more companies that derive at least 10 percent of their revenue from clean energy, energy efficiency or green technology, according to Bloomberg New Energy Finance. (California has 24 such companies.) The average annual revenue from clean energy companies is

11.8 percent of the sales from the state's major companies, up from 4.5 percent five years ago.

The average revenue of California clean energy companies is 140 percent of their domestic peers' average sales. Only five years ago, the ratio was 49 percent. Their revenue grew 33 percent last year when their counterparts throughout the U.S. reported less than half that increase.

Trump and his enablers in the Republican Party fail to grasp the reality that clean energy increasingly is good for business, especially in California. "He can't distinguish the white horse of victory from the pale horse of death, to quote the Apocalypse," said Brown during an interview at his Sacramento office last week. "He's riding a dead horse. That will become obvious to more and more people."

Brown said that the market forces driving California ahead of other states are inexorable: "China also appears to be ready to adopt ever increasing requirements for zero emissions vehicles. That's the biggest market. That is the market, and they have to sell into it with electric cars and California is trying to do the same thing as well as the states that follow us. It can't be resisted. It's too powerful a force."

Investors already are benefiting from the trend, reflected in analyst estimates compiled by Bloomberg showing the sales of California clean companies rising 29 percent, 16 percent and 11 percent in 2018, 2019 and 2020, compared to 17 percent, 8 percent and 6 percent for similar out-of-state firms.

Shares of California's clean companies, which spend twice as much on research and development as their out-of-state peers, gained an average of 70 percent the past two years, or 23 percentage points more than the average return for the rest of the country. At the same time, California's clean companies created twice as many jobs as their counterparts elsewhere. Productivity also is unsurpassed in California, where the revenue per employee of clean companies rose 7 percent last year, while it fell 3 percent outside the state, according to data compiled by Bloomberg.

The new California law mandating that new homes be built with solar energy is a boon for the renewable industry. San Francisco-based Sunrun Inc., whose shares appreciated 122 percent the past 12 months, will report sales growth of 36 percent in 2018, according to analysts surveyed by Bloomberg. The same analysts predict Sunrun will appreciate another 21 percent by December.

That's another way of saying companies have a better chance of becoming greater when they make their business in California.

## **Bloomberg Opinion**

By Matthew A. Winkler

May 29, 2018, 7:00 AM PDT

— With assistance by Shin Pei

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

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## **Goodbye, Newspapers. Hello, Bad Government.**

### ***The collapse of local print media correlates with deteriorating municipal finances.***

All across the country, the offices of local newspapers are shutting their doors. The print apocalypse is truly upon us.

It's interesting to ask just why this is happening. It seems very doubtful that simultaneous bad management decisions on the part of dozens of newspapers all across the country could be behind the decline — it must be something structural. The internet is the obvious culprit. Free online classified ads like those on Craigslist capture one source of ad revenue, while platforms like Facebook and Google take the lion's share of other ads. The internet also breaks local news' quasi-monopoly over information, by putting infinite news source alternatives at the tip of every consumer's fingers. In other words, the internet has simultaneously disrupted every aspect of the traditional newspaper business model.

It's highly unlikely that newspapers will disappear — people will always want professional journalists to provide them with news, and op-ed writers like myself to provide them with opinions, ideas and expertise. Instead, the industry will probably consolidate, with a few large players dominating a nationwide (or global) market. This could happen via newspapers acquiring each other, or — as serial media entrepreneur Ev Williams predicts — with Netflix-like platforms offering subscription services for media content.

[Continue reading.](#)

## **Bloomberg**

By Noah Smith

June 1, 2018, 7:00 AM PDT

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## **The Hidden Costs of Losing Your City's Newspaper.**

### **Without watchdogs, government costs go up, according to new research.**

When local newspapers shut their doors, communities lose out. People and their stories can't find coverage. Politicos take liberties when it's nobody's job to hold them accountable. What the public doesn't know winds up hurting them. The city feels poorer, politically and culturally.

According to a new working paper, local news deserts lose out financially, too. Cities where newspapers closed up shop saw increases in government costs as a result of the lack of scrutiny over local deals, say researchers who tracked the decline of local news outlets between 1996 and 2015.

Disruptions in local news coverage are soon followed by higher long-term borrowing costs for cities. Costs for bonds can rise as much as 11 basis points after the closure of a local newspaper—a finding that can't be attributed to other underlying economic conditions, the authors say. Those civic watchdogs make a difference to the bottom line.

[Continue reading.](#)

CITY LAB

KRISTON CAPPS

MAY 30, 2018

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## **Keeping Special Revenues “Special”**

Special revenues may not be as special as many bondholders have historically expected. Two recent rulings<sup>[1]</sup> from District Court Judge Laura Taylor Swain in the Puerto Rico PROMESA proceeding have held that bond issuers are not required to make post-petition special revenue bond payments during a pending Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”)<sup>[2]</sup> Title III bankruptcy proceeding. Judge Swain also held that unless the Oversight Board authorizes special revenue payments, the court lacks authority to compel the payment. The rulings are at odds with existing precedent, legislative history, and market expectations and have alarmed the municipal finance industry.

In this blog post, we look at the immediate impact of Judge Swain’s interpretation of the Bankruptcy Code—pending appeal—and consider how to mitigate bondholder risk for new special revenue secured bond issuances.

### **What does the Bankruptcy Code say about special revenues?**

Special revenues are revenues derived from a project or system, for example toll revenue generated by a highway or bridge project. Under section 928 of the Bankruptcy Code, special revenues acquired after the commencement of the case remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case.

Section 922 of the Bankruptcy Code expressly provides that the filing of a petition does not operate as a stay of application of pledged revenues to payment of indebtedness secured by such revenue. The marketplace has commonly understood that section 922 of the Bankruptcy Code protects special revenues and directs their payments to issuers notwithstanding a pending bankruptcy.

### **What did Judge Swain say about the automatic stay and special revenues?**

Despite market expectations, Judge Swain held in the Assured Adversary Proceeding that the holders of special revenue bonds cannot compel the debtor to apply special revenues to debt service post-petition. Specifically, the Court held that the exception to the automatic stay found in section 922(d) did not authorize actions to compel the debtor to apply net special revenues to debt service—it merely allows debtors to voluntarily make such payments if they so choose.

Judge Swain cited legal commentary, noting that nothing in the plain language of section 922(d) demonstrates congressional intent to give the holders of special revenue secured bonds the power to compel continued application of such revenues to payments during the course of a Chapter 9 proceeding.

### **Is this ruling consistent with the Bankruptcy Code and prior precedent?**

Legislative history suggests that section 922(d) was intended to avoid the impairment of special revenue bonds in bankruptcy by excluding such payments from the automatic stay. Indeed, the

market has long viewed the continuation of payments on special revenue debt as a certainty.

Consistent with that expectation is Judge Thomas Bennett's decision in the Jefferson County Chapter 9 proceeding. In Jefferson County, Judge Bennett analyzed a pledge of special revenues pursuant to the definition contained in section 902(2)(A) to find that specifically pledged sewer revenues were not subject to the automatic stay.[3] Judge Bennett held that the automatic stay does not bar application of pledged special revenues to indebtedness, regardless of whether the special revenues are generated pre- or post-petition or whether they have been paid over to the trustee. The Jefferson County opinion does not address whether such payments were voluntary or compulsory, but the ruling is consistent with perception that Congress intended to protect special revenues in an effort to ensure a stable municipal finance market.

### **What is the Basis for Judge Swain's Opinions?**

Judge Swain dismissed the bondholder's claims in the Assured Adversary Proceeding, holding that section 922(d) only grants a municipality "permission" to continue paying special revenue obligations in its discretion during a bankruptcy and does not compel a debtor to make such payments. The Court narrowly read the plain language of section 922(d), finding no express payment obligation, and concluded that section 922(d) does not sanction non-consensual interference with governmental properties or revenues under section 305 of PROMESA. Section 305 of PROMESA is similar to section 904 of the Bankruptcy Code—they both protect debtor property from court interference. Section 904 generally prevents a court from issuing any stay, order, or decree that might interfere with any of the property or revenues of the debtor. Under section 304 of PROMESA, the consent of the Oversight Board is required or the enforcement must be in connection with a plan of adjustment if property rights or revenues are to be implicated.

While the Assured Adversary Proceeding merely touches on the authority of the court under section 305 of PROMESA, the ACP Adversary Proceeding takes a deeper dive. In the ACP Adversary Proceeding, Judge Swain dismissed a complaint by bondholders regarding the payment of special property tax and clawback revenues, ruling that section 305 of PROMESA denied the Court subject matter jurisdiction to enforce the payment of special revenues post-petition because the Oversight Board did not consent to such payments. Judge Swain read section 305 of PROMESA broadly. Taking these two opinions together, Judge Swain has held that where the debtor is in possession of the special revenue proceeds and they have some property interest in those funds (be it a small reversionary interest or something else) or the funds are the debtor's revenues, the Bankruptcy Code does not compel that the payments be made and section 305 of PROMESA prevents the court from ordering the Debtor to pay.

### **How Safe Are Special Revenues?**

Not as safe as they were prior to Judge Swain's rulings, but safe enough if a bondholder is able to establish as a matter of law that they hold an enforceable security interest and lien on special revenues. Bondholders with liens are still able to prove their lien and seek payment and/or adequate protection once a Chapter 9 proceeding is filed.

The market's reliance on the assumption that the Bankruptcy Code protects special revenues and mandates their application to debt service in a Chapter 9 proceeding must adjust to reflect the new reality—that the payment of special revenue bonds post-petition is not mandatory, but permissive. Both rulings are on appeal to the First Circuit Court of Appeals[4] and, until those appeals are determined, parties structuring special revenue bond issuances should consider the difference between permissive and mandatory turnover of special revenues post-petition in pricing and in accessing risk in the event of an issuer Chapter 9 filing.

If a special revenue issuance is protected by a state statutory lien, there may be broader protection in the event of a Chapter 9 filing. This is particularly true if the state statute requires the special revenues to be received by a third party, never be in the possession, custody or control of the issuer, and state or other applicable law requires that the funds received be applied to debt service.[5]

Bond documents should clearly identify the statutory lien and be consistent with state statutory requirements regarding the flow of funds. There is greater protection when a statute prohibits the issuer from ever receiving the special revenues because under this scenario, to allow a debtor to receive and perhaps reallocate special revenues would be a violation of state law. It is important when issuing special revenue secured debt pursuant to a state statute that the offering statement, indenture, issuer's resolution, and payment agent agreement are consistent and comply with the statute.

### **What Does the Future Hold?**

It depends on what the First Circuit determines on appeal. If the First Circuit accepts Judge Taylor's statutory interpretation, then the certainty previously enjoyed with regard to turnover of special revenues post-petition must be reconsidered in terms of deal structure and pricing and risk to enforceability during a bankruptcy proceeding. Market access for some issuers will be limited unless state law provides for a statutory lien and payment through a third party intermediary and not the debtor. Should the First Circuit uphold Judge Swain's ruling, we expect that there will be pressure on Congress from all parties within the municipal finance industry, including issuers, to revise section 922(d) to require or mandate turnover of special revenues after a Chapter 9 filing.

[1] *Assured Guaranty Corp. et al. v. Commonwealth of Puerto Rico et al.* Adv. Proc. No. 17-155-LT and 17-155-LTS (Bankr. D.P.R., January 30, 2018) ("Assured Adversary Proceeding"); *ACP Master, LTD., et al. v. The Financial Oversight and Management Board for Puerto Rico as representative of Commonwealth of Puerto Rico, et. al.*, Adv. Proc. No. 17-189-LTS (Bankr. D.P.R., Jan. 30, 2018) ("ACP Adversary Proceeding"). The Assured Adversary Proceeding and the ACP Adversary Proceeding were filed in *In re The Financial Oversight and Management Board For Puerto Rico, as representative of Commonwealth of Puerto Rico*, No. 17BK 3283-LTS (Bankr. D.P.R.). The Puerto Rico Highways and Transportation Authority ("PRHTA") is one of several Title III debtors.

[2] PROMESA was enacted by the U.S. Congress and signed into law in 2016. PROMESA is codified at 48 U.S.C. §§2101, et seq.

[3] *In re Jefferson Cnty., Ala.*, 47 B.R. 228, 262-74 (Bankr. N.D. Ala. 2012).

[4] See appellate case numbers 18-1165/18-1166 (Assured) and 18-1108 (ACP Master Fund).

[5] Note that in the *Assured* case, the Puerto Rico Fiscal and Advisory Authority, on behalf of PRHTA, delivered instructions to the fiscal agent directing the agent not to make scheduled payments to bondholders and that any such payment, if made, would violate the automatic stay under PROMESA. Accordingly, the fiscal agent did not make the payments.

By Karol Denniston and Peter Morrison on May 29, 2018

**Squire Patton Boggs**

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## **Why Environmental Impact Bonds Are Catching On.**

**They give cities a way to share the risk and learn whether new approaches work.**

Washington, D.C., had a problem. Like many cities with antiquated sewer systems, D.C. was under orders from the Environmental Protection Agency to reduce stormwater runoff that threatened the region's water quality. To solve the problem, the city wanted to experiment with "green infrastructure" as an alternative to building costly new pipes and pumps. But green infrastructure had not yet been tried at that scale, so how could the city finance this unproven approach?

The answer, for D.C., was to launch the nation's first environmental impact bond in 2016. An EIB enables the city to share the risks — and the rewards — of innovative problem-solving with investors. EIBs are considered a ["pay for success" strategy](#) because investors' returns depend on whether the project meets its goals. Because of the need for extensive measurement around those goals, the jurisdiction also learns what works best for future planning. This approach is catching on, with Baltimore and Atlanta recently announcing plans to issue EIBs.

In Washington, the impact investing firm Quantified Ventures worked with DC Water on a \$25 million EIB for large-scale green infrastructure: rain gardens, permeable pavement and other landscaping designed to absorb and divert stormwater. The EIB was privately placed with Goldman Sachs' Urban Investment Group and Calvert Impact Capital.

The need for intervention was clear. D.C. (like more than 770 other American cities) has an outdated combined sewer system, meaning that stormwater is funneled into the same pipes that handle raw sewage. On a good day, all that wastewater goes to a sewage treatment plant. But on a bad day — and climate change guarantees more of those — heavy precipitation exceeds the capacity of the pipes and untreated sewage is discharged directly into local rivers.

In 2005, D.C. entered into a consent decree with the EPA to address this problem. The city's plan A was a \$2.6 billion tunnel system to capture the combined-sewer overflow. But halfway through that 20-year project, green infrastructure began to look like a viable and less expensive plan B. And green infrastructure has the potential to create ancillary benefits such as increasing access to green space, reducing the urban heat island effect and creating ongoing jobs in landscape maintenance. The EIB allows D.C. to test that hypothesis at scale.

Of course, testing a hypothesis depends on rigorous monitoring and evaluation, a feature that distinguishes EIBs from other modes of finance, such as standard municipal bonds. But while the full results of the D.C. EIB won't be known until the project's completion in 2021, other cities are already betting on the new approach.

Baltimore, another city with combined sewer problems, also will utilize EIBs to finance green infrastructure. Here, too, the need is urgent: Baltimore is required by federal and state regulators to reduce and treat polluted runoff from more than 4,000 acres of pavement and buildings by 2019. In partnership with the Chesapeake Bay Foundation and with support from The Kresge Foundation, Baltimore plans to issue up to \$6.2 million in EIBs later this year to help pay for stormwater management in some three dozen neighborhoods.

And Atlanta is the first winner of the "Environmental Impact Bond Challenge," funded by the Rockefeller Foundation and in partnership with Quantified Ventures and municipal-bond broker Neighborly. Atlanta's will be the first publicly offered EIB, allowing residents to invest in improving their city. The city plans to use EIBs to fund approximately \$12.9 million worth of green infrastructure projects in flood-prone neighborhoods on the city's west side.

Kresge and Rockefeller believe that EIBs can deploy impactful solutions to resilience, water quality and other environmental challenges. But not everyone has embraced environmental impact bonds. Some, for example, have compared them unfavorably to “green bonds” (which are similar to standard muni bonds but earmarked for environmental projects), observing that EIBs are more costly to issue and that the monitoring and evaluation they require diverts time and resources from funded projects.

Ben Cohen, a senior associate at Quantified Ventures, concedes that “EIBs are not the best tool for every issue and geography.” But when cities want to try unproven approaches, scale up solutions that have been tested on a small scale, or share financing costs with other entities that may benefit from projects, the monitoring and evaluation requirement “is a feature, not a bug,” Cohen says. Evaluation is essential to make sure that taxpayers are not on the hook for projects that don’t work, while providing investors — who often have a social or environmental impact mandate — with an assessment of the outcomes their dollars are creating.

By focusing on outcomes and carefully measuring progress along the way, EIBs can also garner bipartisan support from those who want to see more government effectiveness and accountability. And as cities experiment with untested solutions to the unprecedented challenge of a warming planet, EIBs offer a valuable way to share risks and rewards. “EIBs are a powerful new tool in the municipal toolbox,” says Cohen.

**[governing.com](#)**

By Laurie Mazur | Contributor  
Editor of the Island Press Urban Resilience Project

MAY 25, 2018

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## **[Neighborhoodly Issuer Brief: What the Supreme Court Ruling on Sports Betting Means for Credit.](#)**

*This Issuer Brief is brought to you by Court Street Group.*

### **Supreme Court OKs Legal Sports Betting: What Does it Mean for State Credit?**

The recent U.S. Supreme Court decision that eliminated a 25-year ban on legal sports gambling in all but four states is a case study on state credit.

Different stakeholders have wondered whether the legalization of sports betting would produce some kind of windfall for state revenues through taxation of those activities. If we were to bet, we would take the under on that play from a state credit point of view, with a number of factors to support such a wager.

Not every state has current plans to implement sports betting. Only Connecticut, Pennsylvania and 16 other states have stated an interest in legalizing sports betting. So while there has been support for the concept, it is far from clear how large the amount of revenues from would be from the taxes collected on those activities and whether they would be captured at all.

**[Continue reading.](#)**



## Neighborly

by Joseph Krist

05/30/2018

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### **Last Week in the Muni Market: Italian Government Debt Making Waves.**

The Muni market was a passenger on the interest rate roller coaster last week. First, U.S. interest rates reacted to Sovereign Bond issues in Italy. Italian Government Debt was the big focus as a possible shift in administration flamed fears of Italy becoming more indebted and less interested in being part of the EU. U.S. rates rallied in a flight to quality bid to 2.78% on 10yr U.S. Government bonds. Flight to quality is also referred to as a Risk-Off trade — the idea being that in times of uncertainty the assets of choice are high quality debt tied to stable currencies.

Municipal Bonds underperformed as the bids to buy was not at the same pace as that of U.S. Government debt. The Municipal market demand was most pronounced for California debt.

Finally Italy's coalition government was sworn in and Spain's Prime Minister was toppled in a no-confidence vote. And traders ate their ant-acid/Tums and went back to business as usual. The volatile rate environment reversed over the course of the week, ending with Friday's surprising May Non-Farm Payrolls data release by the Bureau of Labor and Statistics (BLS). The unemployment rate dipped to 3.8% and wage growth surpassed expectations with average hourly earnings rose 0.3%.

The stronger employment data have traders feeling more confident that the Fed will raise rates at the next meeting in June.

Overall, there was lots of volatility but rates ended up near where we started the week at 2.90%.

This week will be a larger than average (~\$5bn per week YTD) Municipal new issue supply week with an expected \$10bn of Muni New Issues. The State of Connecticut's \$500 Million deal pricing will get most of the attention as the State's fiscal issues and pension obligation is on most market participants radar.

### **Neighborly Insights**

Posted 06/04/2018 by Homero Radway

#### **Important Disclosure Information**

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### **The Nation's Freshwater Coast Is a Key Fulcrum for Rust Belt Revival.**

There's growing evidence of rapidly spreading income and opportunity divides between the dynamic,

growing metropolises of America's East and West coasts and the Heartland in between.

Yet there is a third U.S. coast, a "freshwater coast" along the more than 10,000 miles of Great Lakes shoreline, that is proving to be an important fulcrum for economic renewal in America's interior. Continued federal efforts are especially critical for securing the future of many smaller communities that line that coast.

As documented in prior posts, heavy industry along the Great Lakes shores and rivers of the region powered the Midwest's economic growth. Green Bay, Wis. grew as a paper mill town, fouling the Fox River as it entered Lake Michigan. Across the lake in Muskegon, Mich., paper mills, chemical plants, and auto parts plants turned spectacular Muskegon Bay into a toxic hotspot. Duluth, Minn.'s waterfront was an industrial port, where the Front Range's iron ore was shipped to Marquette across Lake Superior and on to the steel mills abutting the Great Lakes in Gary, Ind., Cleveland, and Buffalo.

[Continue reading.](#)

## **The Brookings Institute**

John C. Austin

Thursday, May 31, 2018

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## **[Early Decade Big City Growth Continues to Fall Off, Census Shows.](#)**

### **Suburban growth outpaces city growth for second straight year**

[Newly released census data](#) for city population growth through 2017 show that what I and others [previously heralded](#) as the "decade of the city" may be less valid during the waning years of the 2010s. While most big cities are still gaining population, the rates of that gain are falling off for many of them as the nation's population [shows signs of broad dispersal](#).

The new numbers for big cities—those with a population of over a quarter million—are telling. Among these 84 cities, 55 of them either grew at lower rates than the previous year or sustained population losses. This growth fall-off further exacerbates a pattern that was [suggested last year](#). The average population growth of this group from 2016 to 2017 was 0.83 percent—down from well over 1 percent for earlier years of the decade and lower than the average annual growth rate among these cities for the 2000 to 2010 decade (see Figure 1).

[Continue reading.](#)

## **The Brookings Institute**

William H. Frey

Senior Fellow - Metropolitan Policy Program

Tuesday, May 29, 2018

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## **Municipal Bonds Weekly Market Report: Unemployment Hits 18-Year Low at 3.8%.**

MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.

- Treasury and municipal yields all decreased again this week.
- Muni bond funds break the inflow trend with an outflow this week.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

Brian Mathews

Jun 05, 2018

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## **Modernizing Infrastructure Policies to Advance Public-Private Partnerships.**

In an era of political tribalism, infrastructure investment is one of the few areas of American public policy that polls well among everyone. Which makes sense; who doesn't like the idea of filling potholes, new airport terminals, and water systems that don't burst?

The challenge is keeping up with the country's enormous investment needs, whether it's maintaining what we've already built, integrating new digital technologies, or adding capacity in growing regions. State and local governments—who are responsible for managing our public assets—continue to spend larger amounts, but there is always more to do.

One of the most promising innovations to emerge over the past decade is greater use of public-private partnerships (P3s) to complement traditional funding. When designed well, collaborating with the private sector can attract greater net investment, unlock new management efficiencies, and strike an ideal balance between protecting the public interest and generating private return on investment. Yet not all collaborations are designed well, and there is a growing recognition that it is often state and local governments who are not yet ready to tap these new approaches.

[Continue reading.](#)

**The Brookings Institute**

by Annibel Rice, Ranjitha Shivaram, and Adie Tomer

Tuesday, May 22, 2018

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## **Financing the New Water Infrastructure.**

When it comes to addressing the nation's water infrastructure crisis, cities and towns are ground zero. They account for 80% or more of spending on drinking water, stormwater and wastewater nationwide, as federal and state support for these vital public services have dwindled over the last thirty years. The news is filled with concerning estimates that it will take billions, or trillions, to address municipal water resource needs going forward.

But it may be that these gloomy estimates are overblown.

Green and distributed infrastructure options are having their moment, and municipal leaders are taking notice. Permeable pavements capture and filter stormwater; recycling technology is turning buildings into treatment facilities; water-efficient appliances, landscaping and water smart tech tools are stretching water supply far beyond projections.

[Continue reading.](#)

**By NLC Staf on May 29, 2018**

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## **Fighting Neighborhood Displacement, One Sewer Plant at a Time.**

**A San Francisco infrastructure project shows the potential for creating good jobs that can preserve and strengthen a marginalized community.**

Bayview-Hunters Point, a low-lying, four-square-mile pitch of southeast San Francisco, has seen its fair share of transition, and even drama. Occupied by the Ohlone people before the arrival of the Spanish, it once hosted slaughterhouses that fed the city's growing population. To support the wars of the 20th century, the Navy made dramatic investments in the shipbuilding industry there. And in 1982, long before Candlestick Park was turned into dust, Dwight Clark made a miraculous endzone catch to bring home a championship to a city that badly needed some good news.

During the Great Migration, blacks came to the region on the promise of good blue-collar jobs at the shipyards, and "the Bayview," as the community is known to locals, became a bastion of black home ownership. Even today, as the community continues to reckon with crime and poverty, the area's majority of black and Asian-American residents forge strong and diverse social networks bound by churches, neighborhood groups, youth organizations and community gardens.

Now the Bayview is undergoing yet another transition. Massive real estate projects on the sites of the decommissioned Navy shipyard and Candlestick Park are bringing thousands of new homes and associated commercial activity, signaled by the appearance of craft breweries, coffeehouses and rising real-estate prices that are displacing long-time residents. This is happening even as the realities of environmental injustice continue to burden the community. Only recently were its gas-fired power plants shut off, and questions around remediation of a former Navy radiation lab remind everyone of the public-health risks the community has long grappled with.

[Continue reading.](#)

GOVERNING.COM

by Jayant Kairam | Contributor

JUNE 4, 2018

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## **[Congress Considers Big Changes to New Federal Water Infrastructure Bank.](#)**

[Click here](#) to read the Latham & Watkins Client Alert.

**Latham & Watkins LLP**

May 25 2018

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## **[USDA Seeks Applications for Rural Water and Waste Disposal Infrastructure Projects, Planning Grants.](#)**

PORTLAND, Oregon, May 24, 2018 — The U.S. Department of Agriculture (USDA) Rural Development is seeking applications for rural water and waste disposal infrastructure projects, including planning grants.

The [Water and Waste Disposal Program](#) provides loans, loan guarantees, and grants to fund the construction, upgrade, or expansion of clean and reliable drinking water systems, sanitary sewage or solid waste disposal infrastructure, and storm water drainage in rural areas. With the passage of the 2018 omnibus spending bill, up to \$65 million in direct loans and \$10 million in grants is available in Oregon this fiscal year, which concludes on September 30.

Most state and local government entities, private nonprofits, and federally-recognized tribes are eligible to apply. Projects must be located in a rural area with a population of 10,000 or less. Applications are accepted year-round.

The [Water and Waste Disposal Predevelopment Planning Grant Program](#) assists low-income communities with initial planning and development of applications for USDA Water and Waste Disposal loans, grants, or loan guarantees. Grants of up to \$30,000 or 75 percent of the predevelopment planning costs are available. Most state and local government entities, nonprofits, and federally-recognized tribes serving an area with a median household income below the poverty line or less than 80 percent of the statewide non-metropolitan median household income are eligible to apply.

Additional planning grant funding is available for communities with a population of less than 2,500 and a median household income of less than \$42,284 through the [Special Evaluation Assistance for Rural Communities and Households \(SEACH\) Program](#).

Contact a local Community Programs Specialist near you today to discuss your project concepts and to learn more about submitting a successful application.

Contact: Erin McDuff  
(503) 414-3304

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## **Financing Water Infrastructure Projects Under WIFIA.**

[Click here](#) to view the Latham & Watkins Client Alert White Paper.

**Latham & Watkins LLP**

USA May 25 2018

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## **States Request \$82 Billion for Water Infrastructure.**

Boston — New data show that project requests to fund water and wastewater infrastructure projects through the U.S. EPA-administered State Revolving Fund (SRF) Program have increased 25 percent since last year. For the most recent cycle, 2017/2018 fiscal year, \$26.9 billion has been requested for drinking water and another \$55.3 billion for clean water (wastewater), according to new state-by-state project analysis from Bluefield Research (<http://www.bluefieldresearch.com/research/state-revolving-fund-budget-allocations>).

“Outside of revenue generated from customer billing, the SRF program represents a bedrock source of funding for municipal utilities, reaching almost 20 percent of their capital expenditure needs,” according to Erin Bonney Casey, Research Director for Bluefield. “Although, the \$67 billion difference between requested and awarded funding signals the looming financial challenge for system owners.”

This year, \$14.4 billion was committed to SRF loans and grants, which include federal allocations, state matching funds, and state-specific financing programs for water infrastructure projects. Of awarded funds, treatment system projects received the lion’s share — 36 percent of drinking water projects and 53 percent of clean water projects. Other types of projects include transmission and distribution networks, sewer collectors and interceptors, water or stormwater storage, water reuse, and stormwater overflow corrections.

Bluefield’s annual analysis of the SRF Program identifies projects and systems that requests these low-interest loans and grants to fund capital improvements. The data also demonstrate high variability from state-to-state that is underpinned by more local factors.

State highlights include the following:

- Ohio dominates the funding allocations because it has committed to fund all eligible projects, totaling \$2.2 billion in 2017.
- Illinois issues bonds to augment the available money from state revolving funds.
- California and Texas voted in financing to address drought concerns in 2014 and 2013, respectively, which have boosted the size of SRF resources.
- Select states, such as Tennessee, have not fully matched federal funding, therefore left funding on the table in the short and long term.

The current program is already oversubscribed, with only 17 percent of the total requests receiving funding — loans or grants. Further, only a small percentage of municipalities leverage the program. Of the approximate 49,000 drinking water and 18,000 wastewater systems in the U.S., Bluefield has mapped, 3,911 drinking water and 3,730 wastewater systems that have requested funding this fiscal

year.

“The noted success of the SRF program has not been overlooked in Washington,” Casey said. “In light of what else is happening in D.C. to tackle the nation’s infrastructure challenges and roll-backs of EPA regulations, the SRF program has remained intact amid budget reviews and cuts that have impacted other programs.”

## **Civil + Structural Engineer Magazine**

MAY 30, 2018

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### **D.C. Airport Bonds to Lead Holiday Week in U.S. Muni Market.**

(Reuters) – Washington, D.C.’s airports authority will lead a holiday-shortened week in the U.S. municipal bond market, issuing \$578 million in refunding bonds as it forges on with capital projects at the region’s two main airports.

City and state government agencies will borrow \$3.41 billion in bonds and another \$464 million in notes next week, with markets closed on Monday for Memorial Day. Municipal bond issuance has been slow this year as a result of U.S. President Donald Trump’s tax overhaul.

The Metropolitan Washington Airports Authority manages Reagan National Airport and Dulles International Airport, which cover a total of nearly 13,000 acres in northern Virginia. The bonds, underwritten by Barclays, will help fund a new regional airline concourse and parking garage at Reagan, and infrastructure improvements at Dulles, according to bond documents.

The South Carolina Ports Authority will issue \$325 million in negotiated revenue bonds next week, underwritten by Bank of America Merrill Lynch, while the biggest note issuance will come from the New York City Transitional Finance Authority, a \$100 million negotiated offer underwritten by Jefferies.

With muni issuance low and banks trimming municipal holdings, Trump on Thursday signed legislation that reclassifies investment-grade municipal bonds as high-quality liquid assets (HQLA).

The law means banks can hold muni bonds as part of their liquidity requirements, potentially making those bonds more attractive.

Public officials say the long-awaited move will help lower financing costs on infrastructure projects nationwide, but some analysts aren’t so sure.

“Lawmakers have taken concrete action to ... better position states to invest in infrastructure projects at the state and local level,” said Beth Pearce, Vermont’s state treasurer and president of the National Association of State Treasurers.

But Barclays analyst Mikhail Foux said in a Friday note that the move, while a positive development for the municipal market, is “unlikely to preclude banks from trimming their municipal holdings.”

“At this point, we believe that HQLA is less important to banks, as most have [liquidity coverage] ratios well above 100 percent,” Foux said.

Reporting by Nick Brown; Editing by Paul Simao

MAY 25, 2018

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## **The Week in Public Finance: Governments Haven't Had Rules for Revealing Their Private Debt -- Until Now.**

***A new requirement forces states and municipalities to annually report the terms and amount of loans they have taken directly from banks. It's a growing source of financing for many public entities.***

A new rule is going into effect next month that many believe will shed light on a controversial spending area for state and local governments: how much they owe banks for private loans.

The rule, issued by the Governmental Accounting Standards Board (GASB), lays out standards for reporting these loans in government financial reports. Unlike public debt — which is issued through the municipal bond market and subject to regular disclosure requirements — disclosures about direct loans from banks are not regulated. So, up until now, governments revealed as much — or as little — as they wanted about their private debt.

The lack of continuity has been a source of growing frustration, particularly as governments' private debt rolls have ballooned. Since 2009, banks have more than doubled their municipal holdings to \$536 billion in securities and loans.

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | MAY 25, 2018

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## **Join a GFOA Networking Group.**

GFOA facilitates networking groups that meet periodically throughout the year. Meetings are open to all GFOA members.

[Click here](#) to learn more.

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## **FAF Issues 2017 Annual Report: Standards that Work**

**Norwalk, CT—May 23, 2018** — The Financial Accounting Foundation (FAF) today posted its 2017 Annual Report to the [FAF website](#). The report is available in print, [PDF](#), and [interactive digital](#) versions.

The theme of the annual report is “Standards That Work.” It focuses on how the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) ensure standards work for all stakeholders—a process that begins before a project is added to the agenda and continues after a final standard is issued. Additionally, it highlights how the FAF



participates by supporting the Boards and the standard-setting process.

The 2017 Annual Report includes:

- Letters from FASB, GASB, and FAF leaders
- Infographic snapshots of 2017 outreach and other activities that contribute to making standards work, and
- Complete 2017 management's discussion and analysis and audited financial statements (previously posted to the FAF website).

The interactive, mobile-friendly version of the annual report also features new videos and complete lists of all FASB and GASB advisory group members, including the Emerging Issues Task Force and the Private Company Council.

### **About the Financial Accounting Foundation**

Established in 1972, the Financial Accounting Foundation (FAF) is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut responsible for the oversight, administration, financing, and appointment of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). The FASB and GASB establish and improve financial accounting and reporting standards—known as Generally Accepted Accounting Principles, or GAAP—for public and private companies, not-for-profit organizations, and state and local governments in the United States. For more information, visit [www.accountingfoundation.org](http://www.accountingfoundation.org).

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### **[GASB Establishes New Implementation Guidance to Assist Stakeholders with Recent Pronouncements.](#)**

**Norwalk, CT, May 21, 2018** — The Governmental Accounting Standards Board (GASB) today issued implementation guidance containing questions and answers intended to clarify, explain, or elaborate on certain GASB Statements.

[Implementation Guide No. 2018-1, Implementation Guidance Update-2018](#), addresses new questions about application of the Board's standards on pensions, other postemployment benefits, the statistical section, regulatory reporting, and tax abatement disclosures. The Implementation Guide also includes amendments to previously issued implementation guidance on relevant topics.

The requirements of Implementation Guide 2018-1 are effective for reporting periods beginning after June 15, 2018. The guide is available to download free of charge on the GASB website.

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### **[Muni-Bond Sales Sold by Auction Poised to Reach Two-Decade High.](#)**

- **Competitive bond sales rise to 28 percent of the market**
- **Taxpayers get lower borrowing cost through bidding, states say**

State and local governments are selling the greatest share of their bonds competitive bidding in more than two decades as issuers including New York and Rhode Island embrace auctions as a way to save taxpayers money and boost transparency.

Municipalities have sold \$33 billion of municipal bonds this year through auctions, about 28 percent of total sales, instead of relying on underwriters picked in advance to set the interest rates and line up buyers. If that percentage holds for the rest of 2018, it would be the highest since 1994, according to The Bond Buyer Yearbook.

The shift comes as sales of new bonds have tumbled this year, leaving banks eager to bid on new deals, after Congress did away with tax-exempt debt sales for a popular refinancing tactic that governments often relied on underwriters to arrange. New York plans to sell at least half of its debt in the current fiscal year, or about \$3.5 billion, on a competitive basis, according to the state's capital program and financing plan released this month. Last year, the state auctioned off 79 percent of its debt, about \$6.6 billion.

"New York is achieving lower interest and underwriting costs by doing about half our sales through the competitive marketplace, saving money for taxpayers," said Morris Peters, a spokesman for the Division of the Budget. "The decision of whether to conduct a competitive sale reflects market conditions and the level of complexity, but even when we need bank expertise afforded by a negotiated sale, the benchmark set by competitive sales helps with the pricing."

In a competitive sale an issuer offers its bonds for sale and banks bid against each other to purchase the securities at the lowest cost to the issuer. The bank assumes the risk that it might not be able to sell all the bonds it bought. In a negotiated sale, a municipality hires a pool of banks to find buyers, with interest rates set in discussions with those underwriters.

Last year, states and local governments sold about 24 percent through auction, their highest level since 2000. Bank of America Corp. is the top underwriter of competitive deals this year, winning more than a quarter of municipal bonds auctioned.

Debt issued by highly-rated municipalities, well-known issuers or with simple structures — such as bonds backed by a general pledge to pay or by utility revenues — are suitable for sale by auction, said Jonas Biery, business services manager at Portland, Oregon's Bureau of Environmental Services and the chair of the Government Finance Officers Association's debt committee.

By contrast, negotiated sales are suitable for lower-rated bonds, debt with unique security features and terms or securities sold by infrequent borrowers.

"If you think about the volume of things that go the market, there should be more competitive sales," Biery said. "The majority of credits are going to be more akin to well rated, A or above, fairly standard terms, fairly standard credits."

Biery speculated that the share of competitive sales has grown because Congress abolished advanced refundings, which were often sold by negotiation, the volume of lower-rated debt sales has dropped and direct loans by banks has declined because the reduction in corporate tax rates made them less lucrative for lenders.

Rhode Island adopted a policy of issuing general-obligation bonds through competitive bid in 2016 after newly elected state treasurer Seth Magaziner realized the state hadn't auctioned its bonds in a decade.

"We thought it would be a more transparent approach to begin selling the state's GO debt competitively," said Kelly Rogers, Rhode Island's deputy treasurer for policy and public finance. "Through a competitive sale you're able to point to the specific savings that you potentially gain through the bidding process, which is information you're not privy to through the negotiated

process.”

When Rhode Island auctioned \$150 million in tax-exempt and taxable bonds last month, the winning bids saved the state \$1.5 million, said Rogers.

New York State, one of the biggest issuers of municipal bonds, could push the percentage of competitive sales over 30 percent.

In fiscal 2009, New York instituted a policy to sell 25 percent of its bonds competitively, raising that to 50 percent three years later. Over the past five years, the state has sold \$19.4 billion of its debt, or 60 percent of the total issued, through competitive bid, according to the state’s division of the budget.

A budget division analysis of New York’s personal income tax-backed bonds found that the yields on bonds sold by competitive bidding were 0.1 percentage point closer to the benchmark, on average, than when the state selects an underwriter in advance, said Peters.

New York also pays lower fees to underwriters on competitive sales. Over the last five years, the state paid \$2.19 per \$1,000 bonds for bonds sold by auction and \$4.79 per \$1,000 on negotiated deals, on average, for personal income tax- and sales tax-backed securities, according to Peters.

## **Bloomberg**

By Martin Z Braun

May 25, 2018, 7:31 AM PDT

— *With assistance by Joe Mysak*

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### **[Wells Fargo Dismisses Bankers in Struggling Muni-Bond Unit.](#)**

- **Senior bankers in New York, Los Angeles, Chicago leave**
- **Public finance chief’s shake up follows loss of market share**

Wells Fargo & Co.’s new public finance chief Stratford Shields is shaking up the department by dismissing senior bankers in New York, Chicago and Los Angeles and bringing in colleagues from his former employer, Morgan Stanley.

Fifteen employees from its public finance department were removed, retired or quit as the bank shifted its strategy, according to a person familiar with the matter. Shields, who took over in November, has hired six bankers and plans to continue hiring, said company spokeswoman AnnMarie McDonald.

“Wells Fargo has one of the largest balance sheets of municipal lenders and a superior municipal sales and trading operation,” McDonald said in an email. “The change in leadership gives us an opportunity to reinvest to position the business for continued growth.”

The steps come after Wells Fargo’s share of the municipal-bond underwriting business shrank in part because some governments severed ties with the San Francisco-based bank after revelations that employees created bogus accounts in customers’ names to meet sales targets. Competition has also increased as debt sales plunged 20 percent this year after Congress eliminated a popular

refinancing tactic and interest rates increased.

Wells Fargo was the seventh-biggest underwriter of U.S. municipal bonds last year, falling two spots from the previous year, according to data compiled by Bloomberg. This year, it fell to eighth as it managed \$4.9 billion long-term debt sales.

California, Illinois and Chicago suspended no-bid business with the bank after regulators fined the firm for opening potentially millions of bogus customer accounts, while New York City imposed a ban because Wells Fargo received a poor federal Community Reinvestment Act rating. While Chicago's ban has since expired, the others are still in force.

Illinois's ban applies to investments through the treasurer's office, according to Paris Ervin, a spokeswoman for the treasurer.

Lawrence Richardson, who led the Midwest public finance group in Chicago, and David Johnson, who headed California municipal banking, are no longer at Wells Fargo, according to broker registration records. Craig Hrinkevich, a senior banker in New York City, also no longer works at Wells Fargo, records show.

Wells Fargo also cut derivatives and quantitative positions, but is hiring for positions in transportation, infrastructure, affordable housing and health care, McDonald said.

Richardson didn't return a call seeking comment and Hrinkevich declined to comment. Johnson couldn't be reached.

Shields ran public finance at Morgan Stanley for five years before joining Royal Bank of Canada in 2014. He has hired former Morgan Stanley colleagues Paula Dagen, Chuck Peck, Randy Campbell and Jim Perry, as well as Kevin Hoecker, a former RBC banker based in Chicago.

Dagen, a managing director in Wells Fargo's northeast group, was Morgan Stanley's lead banker covering New York. Peck, based in Denver, is taking over as head of the west and Midwest region.

Campbell and Perry are on so-called garden leave, after giving notice to Morgan Stanley. Campbell will serve as head of public-private infrastructure partnerships and sports finance, while Perry will be a managing director in the south-central region.

Separately, Wells Fargo's foreign-exchange business cut 22 salespeople, according to a person briefed on the matter, the latest casualties of a slump in market activity.

## **Bloomberg**

By Martin Z Braun and Danielle Moran

May 23, 2018, 9:28 AM PDT Updated on May 23, 2018, 4:32 PM PDT

— *With assistance by Elizabeth Campbell, Romy Varghese, and Amanda Albright*

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## **[Custodial Receipts: A Useful Tool for Restructuring Insured Municipal Bonds.](#)**

Municipal restructurings pose many challenges distinct from those encountered in a typical corporate bankruptcy. One challenge frequently encountered in the context of a municipal

restructuring is how to restructure municipal bonds insured by a monoline insurance company. Custodial receipts, which have long been used to facilitate secondary market insurance for muni bonds, can be a useful tool that allows a policy on a legacy bond to be mated with a new muni security being issued in a restructuring.<sup>1</sup>

## **Municipal Bond Insurance in a Nutshell**

Under a classic municipal bond insurance policy, a bond insurer will agree to essentially guarantee payment of principal and interest when due on the insured bonds, in accordance with the original payment schedule. If the issuer of the insured bonds defaults, in the payment of interest or principal, the insurer makes the payment to bondholders and will be subrogated to the bondholders' right to the missed payment. Typically, as a condition of, and in exchange for, the insurer covering the missed payment, bondholders will be required to assign their rights to the missed payment to the insurer, and the insurer will be fully subrogated to the bondholders' rights to the missed payment. Usually, so long as a bond insurer has not defaulted on its policy, the bond insurer will control the exercise of most remedies in respect of the insured bonds.

## **Challenges in Restructuring Insured Municipal Bonds**

This works well enough so long as the original bonds remain outstanding. However, often in bankruptcy, an issuer's bonds are canceled, and new restructured bonds are issued in their stead. The economic terms of the restructured bonds may diverge from those of the original legacy bonds in certain key ways, including reduced principal amount and interest rate and an extended amortization schedule. The cancellation of insured bonds in exchange for new restructured bonds gives rise to various questions and uncertainties, including:

- Are payments made by the issuer under the restructured bonds credited against payments owed by the bond insurer on its insurance policy for the legacy (i.e., now canceled) bonds?
- How does the right to payments under the bond insurance policy trade following the restructuring, after the insured bonds are no longer outstanding? Should it trade separately from or together with the restructured bonds?
- How do the insurer's subrogation and assignment rights apply where bonds it is insuring no longer exist, and does the insurer retain subrogation/assignment rights in respect of the new restructured bonds?
- Who has voting rights with respect to the restructured bonds issued in exchange for the legacy insured bonds?

The challenges posed in restructuring insured bonds were highlighted by a New York case in which a monoline insurer argued that it was no longer obligated to make payments on its policy since the insured bonds were canceled as part of the plan of reorganization.<sup>2</sup> While the trial and appellate courts both rejected this argument, the case demonstrated the importance of considering issues relating to bond insurance policies when preparing a plan of reorganization.

## **Custodial Receipts and Secondary Market Insurance**

One tool that may be useful to address the challenges of restructuring an insured muni bond is custodial receipts — an instrument borrowed from the secondary insurance market.

Unlike the primary insurance market, where policies are purchased by a bond issuer contemporaneously with the original issuance of the insured bonds, secondary market insurance is purchased by holders of uninsured bonds at some point after the original issuance of the bonds. Bondholders wishing to acquire the insurance deposit their bonds with a custodian and receive a

custodial receipt, often referred to as a “certificate of bond insurance” or “CBI,” representing the right to receive scheduled principal and interest payments from the custodian.

Ordinarily, payments from the custodian would simply be principal and interest payments on the bonds held in custody, which the custodian receives from the issuer. Should there be a default on the bonds, the custodian will fund the payments through a draw on the secondary market insurance policy issued by the insurer.

The terms of the custody agreement are set forth in a custody agreement between the insurer and custodian, with the holders of the CBIs being identified as third-party beneficiaries of the custody agreement.

The SEC staff has granted no-action relief for secondary market issuance of custody receipts without registration under the Securities Act of 1933 and without the custodian having to register as an investment company under the Investment Company Act of 1940. See *Fin. Sec. Assurance, Inc.*, SEC No-Action Letter, 1988 WL 234169 (Mar. 30, 1988). This no-action relief has been premised on various representations, including that the custodian would play a purely ministerial role.

### **Custodial Receipts as a Tool for Restructuring Insured Municipal Bonds**

While originally developed in the secondary insurance market, custodial receipts can be used to facilitate a restructuring of insured bonds. And unlike secondary insurance market arrangements where the custodial agreement is grafted onto the existing debt documentation, in the restructuring context, the indenture and other bond documents can be designed to work in tandem with the custody agreement.

Of course, the utility and feasibility of custodial arrangements will depend on the particulars of the terms of the restructuring. However, where the replacement debt securities are designed to track certain basic features of the legacy insured bonds, such as their payment schedule, a suitable custody arrangement can be engineered.

#### *CBIs as a Replacement for Legacy Insured Bonds*

The terms of a custodial arrangement may in these circumstances include features and provisions such as the following:

- On the effective date of the plan of reorganization, the insured legacy bonds are canceled, and the former holders of the insured legacy bonds receive custody receipts, or “CBIs,” representing a participation in the custody arrangement established under the plan.
- The CBIs are issued under their own CUSIP in “street name” through DTC, which facilitates the trading of beneficial interests in the CBIs.
- Also on the effective date, the restructured bonds issued in respect of the insured legacy bonds are deposited with an independent custodian. Consistent with the no-action letters for secondary market insurance, the role of the custodian is purely ministerial.
- The insurance policy for the insured legacy bonds is also deposited with the custodian.
- The custodian holds the restructured bonds and the insurance policy in custody on behalf of, and for the exclusive benefit of, the holders of the CBIs, pursuant to the terms of a custody agreement, to which the custodian and the insurer are parties.
- The CBIs represent the right to receive the payments that would have been due on the legacy uninsured bonds (had they not been canceled) in such amounts and at such times as they would have been due in accordance with the original unaccelerated payment schedule of the insured legacy bonds.

- The custodian uses debt service on restructured bonds held in custody to fund a portion of these payments.  
To the extent debt service on the restructured bonds is insufficient, the custodian makes a draw on the insurance policy to fund the shortfall.
- As part of the custody arrangement, the insurer agrees to remain bound by its original insurance policy, notwithstanding the cancellation of the original insured bonds.
- So long as the restructured bonds remain in custody and the insurer continues to perform under its policy, the insurer retains its rights of consent and control over exercise of remedies in respect of the restructured bonds to the same extent as it had such rights and control in respect of the legacy insured bonds under the legacy indenture.
- After all amounts are paid to the holders of the CBIs in accordance with the original payment schedule of the legacy insured bonds, the custodial relationship is dissolved and the restructured bonds held in custody are transferred to the insurer.

### *Issues to Be Considered*

The parties, particularly representatives of the legacy bondholders, will need to consider and address a variety of issues in structuring a custodial arrangement under a muni bond plan of reorganization. These may include:

- How and by whom the custodian is compensated.
- The means for removing and replacing the custodian.
- Availability of information concerning the CBIs and the custodial arrangements, through postings on EMMA or otherwise.
- Availability of information concerning payments of principal and interest on the restructured bonds, and draws on the insurance policy, which may be required by bondholders for tax and accounting purposes.
- How and under what circumstances the custody agreement may be amended.
- The rights and remedies available to holders of the restructured bonds in the event of an insurer default, including the role, if any, of the indenture trustee in these circumstances.

### **Custodial Receipts as One Tool Among Many**

Custodial arrangements will not be suitable for all situations. For example, these arrangements are unlikely to be attractive where long dated insured capital appreciation bonds are to be replaced with current pay restructured bonds. Also, the parties will need to be cognizant of the tax and securities law and other regulatory considerations relevant to CBIs. Where custodial arrangements are unsuitable, parties and their counsel will need to consider alternative means of preserving the benefits of the insurance policy for the legacy bondholders and their successors. Nonetheless, the custodial model should be on the radar of parties engaged in the restructuring of insured municipal bonds. In the appropriate circumstances, it can be a linchpin of a successful restructuring that effectively preserves the economic expectations of insured bondholders.

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<sup>1</sup> Kramer Levin recently served as counsel to holders of insured municipal bonds in a restructuring that employed custodial arrangements of the kind described in this article.

<sup>2</sup> See *Oppenheimer AMT-Free Municipals v. ACA Fin. Guar. Corp.*, 959 N.Y.S.2d 90 (Table), 36 Misc. 3d 1229(A) (Sup. Ct. 2012), *aff'd as modified*, 971 N.Y.S.2d 95 (App. Div. 2013).

by Steven Segal

May 3, 2018

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## **Three Sneaky Ways Brokers or Dealers Can Take Advantage of Bond Transactions.**

Whether you are managing your own investment portfolio or a private or public institution looking for investment vehicles for their pooled cash accounts to earn a better return than a bank account, we all directly or indirectly deal with brokers or dealers in the investment world.

In this day and age, more and more investors are turning towards online platforms to customize their investment portfolios and look for investment choices that best fit their needs. A broker or dealer is even more necessary in the municipal debt markets where an investor seeking municipal debt as a potential investment must contact one to get any pricing information on a buy or sell transaction. This is primarily due to the non-standardized and decentralized nature of the municipal capital markets. In simple terms, there are over 1 million municipal debt instruments outstanding at any given time and each debt could have a different structure. This warrants a need to have broker and dealers in the markets to facilitate trading.

In this article, we'll take a close look at the broker/dealer role in the municipal debt markets, various ways in which brokers can manipulate investors and some way to help investors protect their interests.

### **Brokers, Dealers and Municipal Debt Markets**

Before we look at the mechanics of a municipal debt transaction, investors must be fully aware of the firm – either broker or dealer – and their role in the trade execution.

Let's look at the following example to understand a firm's capacity in executing a client's trade. Suppose a client goes to XYZ firm seeking to purchase a particular municipal debt instrument. If the firm is acting as a broker, it is simply taking a client's purchase order to market and helping him or her fill the order for a commission or fee. However, when a firm is acting as a dealer, they are filling the client's order themselves, meaning that if a client goes to XYZ firm to sell his muni debt instrument, the firm will buy (i.e. fill) that order by purchasing those instruments for the firm's own account and can resell them later. This also means that a dealer is acting in a principal capacity (i.e. as a market maker) and charges a markup or markdown when executing a transaction.

In either capacity, brokers and dealers are playing an integral part in the transaction execution. As mentioned above, the municipal debt markets still operate under a decentralized structure, which means that independent investors are highly dependent on their brokers and dealers to execute their trades at the right prices and look out for their best interests. Brokers and dealers often use a system where multiple brokers and dealers can provide quotes for bond transactions they are interested in buying or selling, also known as the Alternative Trading System (ATS). In theory, this creates a competitive environment for the individual investor looking to buy or sell.

*Check out our article on the benefits of the all-to-all trading system [here](#).*

However, there are ways dealers can potentially take advantage of their retail customers.



## How Muni Bond Market Intermediaries Can Take Advantage of You

There are the 3 key scenarios that muni bond investors need to be aware of while sending their next trade order to their brokers and dealers.

### 1. Internalization of Highest Bids

This practice is still prevalent in some of the dealer trade executions and can be quite costly for investors looking to buy or sell a particular security.

As mentioned above, in an ideal situation, when a dealer is to sell a bond on its customer's behalf, the dealer can host bids wanted on an alternative trading system and sell the bond at the highest bid, which will serve the client's best interest. However, there is a loophole; since the dealer has access to see all the bids coming in for their client's security, they are very well aware of the highest bid.

However, instead of informing the client about the highest bid, the dealer will buy the bond as a principal from their client below the highest bid price and keep it as inventory. The dealer knows that they have bought the instrument for less than the actual highest bid, and there is potential for them to later resell that security and make a profit.

*Be sure to check out our previous article [here](#) that explains how to avoid overpaying for individual munis.*

### 2. Bid Filtering

While partaking in the ATS, both the brokers and dealers can potentially filter out some of the bids coming in for a particular security they are trying to buy or sell for their investor as long as they have a valid reason not to transact with a particular counterparty.

However, the reason to not transact with a particular party is loosely monitored by the regulatory authorities. Therefore, dealers can unethically use this method to weed out the highest bids under false pretenses, and the dealer can execute that trade from its inventory at a lower bid. This also means that the customer will have to sell or buy the new security at an unfavorable price and without even knowing that there could have been higher offers.

### 3. Last Look Advantage

This tactic may not be as harmful to individual investors looking to buy or sell as the previous two tactics. But it certainly goes against trading fairness for other individual buyers or sellers in the market. Under this technique, a dealer reviews all the bids offered for the debt instrument an investor is looking to sell, and instead of selling the bond to the higher bidder, he or she acts as the principal and creates their own bid, slightly higher than the highest bid, and purchases that security for their own inventory.

Although the investor selling the particular security got the highest bid and it worked in his or her favor, it was still an unethical practice due to the unfair treatment of the other buyers or bidders. The dealer has an unfair advantage to look at all the bids and offer a slightly higher bid to win the business.

*Not sure how to go around looking for the right muni bond? You can check our newly launched [Municipal Bond Screener](#) to explore muni bond CUSIPs across the U.S. based on custom parameters including issuing state, insurance status and a range for different bond attributes such as maturity,*

*coupon, price and yield.*

**municipalbonds.com**

by Jayden Sangha

May 24, 2018

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## **Municipal Bonds Weekly Market Report: Fed Chair John Williams Using Neutral Rate as Guidance.**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Treasury and municipal yields all increased this week.
- Muni bond funds saw its second week of inflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

by Brian Mathews

May 22, 2018

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## **How Exposed Is Your State to Trade Tensions?**

***More than a dozen states have above-average international trade exposure, per a new Moody's report.***

Implementation of U.S.-China tariffs or withdrawal from the North American Free Trade Agreement would have bigger economic effects on some states compared to the more limited impacts of other recent trade decisions, a new Moody's Investors Service report found.

U.S. talks with Mexico and Canada to renegotiate NAFTA are ongoing, although it remains unclear exactly when a new deal might be inked. President Donald Trump has said reducing the trade deficit with China is a major priority, with both sides at various points raising the threat of tariffs on imports.

The impacts of the U.S. pulling out of the Trans-Pacific Partnership after Trump became president and imposing duties on washing machines, solar panels, steel and aluminum earlier this year were short lived.

[Continue reading.](#)

ROUTE FIFTY

by Dave Nyczepir

MAY 25, 2018

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## **Foundation Offers Charter Schools New Low-Cost Financing Options.**

A foundation with a philanthropic vision is combining forces with impact investors to provide charter schools with alternative low-cost financing options for building and renovating schools.

The Walton Family Foundation, based in Bentonville, Ark., provided seed funding to create two “innovative” educational facility financing vehicles that it said would provide charter schools with new long- and short-term financing choices, in part because some schools don’t have access to public financing.

With \$200 million from the foundation to start up, the Charter Impact Fund will be a revolving-loan-type fund offering long-term, fixed-rate loans to high-performing charter schools for up to 100% of project costs.

It will also offer impact investors a forum to support high-quality charter schools, and will eventually tap into the bond market, according to Chief Executive Officer Anand Kesavan.

The Facilities Investment Fund, backed by commercial and philanthropic capital, will offer charter schools five-year, fixed-rate loans for up to 90% of project costs for new construction or renovations. It received \$100 million from the foundation and Bank of America Merrill Lynch.

“Funds like Walton’s will help charter schools send more resources directly to students and teachers, and work toward the day when more private, public, and philanthropic dollars lead to a level playing field for charter facilities,” said Walton K-12 Education Program Director Marc Sternberg.

Charter schools – public schools that are independently run – serve more than 3.2 million students in 44 states and the District of Columbia.

Surveys suggest there are an additional 2.5 million students whose parents would enroll them in a charter school if location and capacity were not problematic, according to “Strengthening Federal Investment in Charter School Facilities,” a February report commissioned by the Washington, D.C.-based National Alliance for Public Charter Schools.

“Access to facilities is and will continue to be a challenge to the growth of the sector,” the report said. “Public charter schools do not have access to the same financing structures as traditional district schools.”

The report said 15% of every dollar spent by charter schools goes to facilities or facility-related costs.

It also estimates that the interest rate for charter school borrowing is two times higher than it is for traditional public schools.

Charter school advocates say that less than half of all states authorizing them provide a per-pupil monetary allowance for their facilities, and that opportunities to share space with district schools

are rare.

Charter school access to the municipal bond market is also on the rise across the country.

With two decades of tax-exempt bond financing activity on the books, the charter school sector continues to mature with “healthy increases” in the number of transactions and par-amount sold annually, NewOak director and senior analyst Wendy Berry said in a 2017 Year in Review released Feb. 20.

Charter school tax-exempt bond volume in 2017 totaled \$3.5 billion, representing the sixth consecutive year of record issuance, said Berry, who specializes in covering the charter sector.

“This volume figure represents a robust increase of more than 20% in par-amount issued over 2016 statistics,” she said, adding that a “substantial amount” of the increase was fueled by the proposed elimination of private activity bonds in early versions of the federal Tax Cuts and Jobs Act.

Although the final act signed into law in December retained PABs, Berry said she believes 2018 could be another year of record volume with issuance likely once again to be concentrated in a handful of states.

Given the solid growth rate in the number of charter schools, along with the expansion of many high-performing schools, she said it is not surprising that more charter schools are accessing the tax-exempt bond market.

“Although charter school bond issuance represents a relatively small piece of overall tax-exempt issuance – still less than 1% of annual municipal volume – it continues to grow at a very healthy pace,” she said.

Charter schools in 22 states and the District of Columbia entered the bond market in 2017, Berry’s year-end review found, though the number of transactions and the par amount associated with each jurisdiction varied widely.

On a combined basis, the top five issuing states were responsible for 54.6% of the number of transactions as well as 59.5% of the total par sold in 2017.

Arizona topped the list with \$824.5 million of bonds issued in 27 transactions.

Texas came in second with sales of \$482.9 million and California was third with \$295.3 million, followed by Florida with \$258 million and Utah with \$199.7 million.

Because some charter schools don’t have access to the bond market, advocates contend that’s why there’s a need for alternative low-cost financing, a void that the Walton Family Foundation’s initiatives can help fill.

Kesavan said interest from prospective borrowers has been strong since the Charter Impact Fund was announced in April.

“We are in the underwriting process with several borrowers and expect to announce our first round of loans in late summer,” Kesavan said. “Interest from schools has considerably exceeded what our initial capital can fund, which tells us that we should bring more impact investors into the opportunity to help high-quality charter schools serve more students and families.”

The structure of the CIF, Kesavan said, is modeled after successful state revolving funds that serve

projects in other sectors, such as clean water and affordable housing.

Over time, the CIF plans to expand lending activity with the objective of tapping the tax-exempt bond market with a structure that will preserve lower-cost financing for school facilities while offering impact investors an attractive option to put capital to work in the sector.

The “CIF is the first pooled fund of its kind for public charter schools, providing permanent, credit-enhanced loans at low cost,” Kesavan said.

Loans will offer charter schools funding for a project from a single source, freeing them from spending significant resources securing multiple streams of private funding. There will be no fees associated with issuance, and no debt service reserve costs.

Generally, loans will be guaranteed by the borrower’s credit, net revenues and real property.

“Chief among our eligibility criteria is the charter school’s academic standing, which must be high, and its sustainability, which we can gauge in part through family demand for seats,” Kesavan said. “The goal, of course, is to finance projects for high-quality, in-demand schools that will operate far into the future.”

The Facilities Investment Fund, created in collaboration with BAML and managed by Civic Builders, said it is actively underwriting several deals with schools across the country.

Charter management organizations — which run two or more charter schools — have also shown interest, FIF officials said.

“There continues to be a lot of excitement around the Facilities Investment Fund from charter schools and CMOs that see the program as a solution to many of their facilities funding challenges,” the FIF officials said.

The FIF loans also expect to save charter schools money by providing funds from one source. Interest rates are currently under 5% and there’s no prepayment penalty.

“The philanthropic and private capital blend allows FIF to achieve an interest rate for schools below commercial market levels,” officials said.

FIF loans will be structured with a first-lien position on the property being financed.

Loans can be made in jurisdictions where real assets revert to the district upon charter revocation, depending upon jurisdiction and how the deal is structured.

Both CIF AND FIF initiatives are designed to make it easier and more affordable for public charter schools to build and renovate facilities, according to foundation board member Alice Walton, the daughter of Walmart founder Sam Walton and his wife Helen.

“This effort will allow resources that were spent on facilities to be directed back into the classrooms, back to the teachers and back to where it should be with the students,” she said.

BY SOURCEMEDIA | MUNICIPAL | 05/23/18 07:08 PM EDT

By Shelly Sigo

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## **[S&P Extra Credit Podcast's Look at Infrastructure.](#)**

This week's theme is, infrastructure! Global Practice Leads Tina Morris and Susan Gray talk about public and private sector infrastructure issues. Kurt Forsgren discusses autonomous vehicles and Ted Chapman and Obioma Ugboaja cover water bundling.

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May 21, 2018

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## **[Transportation Remains in Forefront in Muni Credit.](#)**

### **Washington Metro Mini Summer of Hell**

The Washington Metropolitan Area Transit Authority (WMATA), the operator of the Washington, D.C., metro system, has endured several years of delays and disruptions as it attempts to maintain the system's physical plant and improve its safety operations. It may be the most glaring example of infrastructure underinvestment existing right under the noses of Congress.

Now it's embarking on a three-year capital project with dedicated capital funding recently approved by legislatures in Virginia, Maryland and the District of Columbia. It does not include any federal money, once again reinforcing our emphasis on the trend of states and localities moving forward despite federal legislative inertia of infrastructure. Sen. Tim Kaine (D-VA) may have said it best when he said: "This is what happens when we fall decades behind on maintenance — commuters bear the brunt of the inconvenience when it finally comes time to dig out the backlog."

[Continue reading.](#)

by Joseph Krist

### **Neighborly Insights**

05/24/2018

*This Credit Focus is brought to you by Court Street Group Research.*

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## **[Atlanta Gets Creative Financing Green Infrastructure.](#)**

***The city plans to undertake eight projects worth \$12.9 million making its Westside more resilient to flooding.***

Atlanta is the first U.S. city to use a publicly offered environmental impact bond to fund green infrastructure projects, which the Department of Watershed Management plans to use to improve drainage in a neighborhood plagued by flooding.

The city proposed eight projects worth \$12.9 million for improving the resilience of the Proctor Creek Watershed and nearby, flood-prone Westside neighborhoods to win The Rockefeller Foundation's [Environmental Impact Bond Challenge](#).

Investment advisory firm Quantified Ventures is helping Atlanta structure the deal, while financial technology company Neighborly is acting as underwriter.

"I think it really allows the municipality to deploy green infrastructure and apply the findings of projects to its broader infrastructure plans," Lindsey Brannon, Neighborly's head of public finance, told Route Fifty.

The municipal bond market is worth a billion dollars per day, Brannon said, but issuers and investors increasingly seek a "pay-for-success" model that measures project impact—holding state and local governments more accountable for their spending.

Neighborly first worked with DC Water in 2016 on a private environmental impact bond, or EIB, for green infrastructure projects aimed at flood relief. Payment was dictated by successful stormwater reduction over several years.

Rockefeller helped finance that offering and later partnered with Neighborly in July on the new, public challenge. The foundation provides grant funding on Neighborly's online brokerage platform, which then underwrites the bonds and places investors.

There's enough funding for two cities, but Atlanta was the first to be announced.

Green infrastructure captures water with soil and vegetation more cheaply than traditional grey infrastructure, while also creating more urban green space. All eight of the city's proposed projects—including bioretention basins, stormwater planters, bump-outs, and permeable pavement—are designed to reduce strain on its combined wastewater-stormwater sewer system.

"Utilities nationwide are all searching for innovative ways to acquire creative financing, and these projects will successfully demonstrate how community partners working together can advance green infrastructure for our communities," said Kishia Powell, Watershed Management commissioner, in the March announcement.

Atlanta has spent \$2 billion on wastewater infrastructure in recent years, earning a [Clean 13](#) designation in 2017 from the Georgia Water Coalition.

Projects benefiting Vine City, English Avenue, Mozley Park, Grove Park, and the Bankhead/Hollowell corridor were shovel-ready, Brannon said, and having stakeholder buy-in ahead of time made Atlanta the perfect choice for an EIB. Neighborly needed an upfront revenue source that could pay back the bonds and wanted to see them benefit vulnerable communities while growing the investor base interested in resilience, Brannon said.

"We wanted to make sure the contribution of the project was also scalable," Brannon said. "Other cities could use this as an example of impact, in terms of financing approach."

## **Route Fifty**

By Dave Nyczepir,  
News Editor

MAY 24, 2018

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## **Why We Need a National Infrastructure Map.**

***Setting priorities is hindered by the lack of systematic information available on the nation's inventory of infrastructure assets, their location and condition.***

It is widely accepted that the general condition of America's infrastructure is poor and that major investments are needed. In its latest annual Infrastructure Report Card, the American Society of Civil Engineers issued an overall grade of D+ and estimated that \$4.6 trillion would be needed to address the challenge.

Even though major investment in America's infrastructure was called for by many of the candidates running for president in 2016, including President Trump, positive movement on this issue has been stymied by political gridlock. One can blame partisan politics. But, perhaps we find ourselves at a political impasse for other reasons. Perhaps we lack a clear, data-driven picture that could provide public administrators, politicians, industry partners, and citizens alike a common understanding of this enormous infrastructure challenge at sufficient geographic detail that it has meaning to them. Perhaps we need a National Infrastructure Map.

On May 1, the National Academy of Public Administration, in partnership with the American Geographical Society, the National Academy of Construction, the American Society of Civil Engineers, and Arizona State University, convened leaders in public administration, infrastructure development, geospatial technology, and data integration/open data—spanning industry, government, universities and the social sector—to tackle this very basic question.

These organizations came together on this important issue because all understood that to have a hope of a coherent national infrastructure investment strategy, we must have a common understanding, a common picture of our national infrastructure. We must know the condition of all of our highly interdependent infrastructure systems, and how they are arrayed geographically, at a very fine scale if we are to set priorities for investment. This is not just a problem for the federal government. Infrastructure is a fundamentally intergovernmental challenge that requires transparency and accountability across local, regional, and federal governmental organizations of all kinds.

Priority setting is an inherently political process that requires the recognition of mutual interest and deal-making. But this political process cannot function well in the absence of good information. Priority setting in infrastructure is hindered by the lack of systematic information available on the nation's inventory of infrastructure assets, their location and condition. All politics is local and infrastructure is local, yet granular information on the location and condition of infrastructure across the nation is not readily available in a way that can enable a positive-sum politics.

To solve this problem, it is imperative that leaders from every sector join in a thoughtful dialogue about how we, together, can help envision our national infrastructure challenge in a common geographic context that allows us to understand the very specific interdependences that exist between our very real local, regional and national infrastructure needs.

In an age increasingly defined by internet-based systems and open data, the challenge is not primarily one of technology. Geographic information systems for capturing location-based data on infrastructure have been broadly adopted by public agencies and private organizations at every level of government for decades. But access to this information is constrained by a variety of factors, including the lack of interoperability across systems, jurisdictional issues and proprietary rights.



Moreover, data is collected for different purposes using different standards and, therefore, is often not comparable.

Consequently, information on the nation's infrastructure is uneven and stovepiped. Infrastructure challenges cannot be assessed in an integrated way or communicated effectively to the relevant decision-makers and constituencies. However nerdy this may sound, the lack of an online, digital National Infrastructure Map that organizes such information for citizens and policymakers alike is a major cause of our nation's inability to achieve political consensus on infrastructure investment. Its absence leaves us unable to govern across the divide.

Congress should be investing in the creation of a National Infrastructure Map—one that provides political leaders and citizens with readily available, systematic, comparable, location-based information about the nation's infrastructure to support an informed political process for determining priorities and acting on them. Done right, this will help overcome the public leadership challenge that has left us stalled, enabling political leaders at all levels of government, across our nation, to marshal support among citizens and key stakeholders around a positive vision for a better nation.

## **Route Fifty**

By Teresa W. Gerton, Christopher K. Tucker, Wayne A. Crew and Jonathan Koppell

MAY 22, 2018

*Teresa W. Gerton is the president and CEO of the National Academy of Public Administration; Dr. Christopher K. Tucker is the chairman of the American Geographical Society; Wayne A. Crew is general secretary of the National Academy of Construction; and Jonathan Koppell is dean and professor at Arizona State University's College of Public Service and Community Solutions.*

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## **[Water Infrastructure Legislation Gushes Ahead in Congress.](#)**

***A House committee passed its Water Resources Development Act legislation unanimously on Wednesday.***

WASHINGTON — A House panel moved forward Wednesday with a bill that would call for certain tax dollars be spent on port and harbor projects in future years.

The House Transportation and Infrastructure Committee unanimously approved its Water Resources Development Act, or WRDA, legislation that would set policy for the U.S. Army Corps of Engineers, an agency involved in public works like dams, locks and harbors.

Committee Chairman Bill Shuster, a Pennsylvania Republican, said the bill could hit the House floor in early June.

[Continue reading.](#)

## **Route Fifty**

By Bill Lucia,  
Senior Reporter

## **Senate Panel Passes Water Bill That Would Rework Lending Program.**

***Provisions involving the Water Infrastructure Finance and Innovation Act have drawn backlash from some utility groups.***

WASHINGTON — Water infrastructure legislation a Senate committee approved Tuesday would make changes opposed by some major utility groups to low-cost lending programs for water and sewer projects.

The American Water Works Association, which says it represents almost 4,000 utilities that supply about 80 percent of the country's drinking water, withdrew its support for the bill over changes that involve the Water Infrastructure Finance and Innovation Act, or WIFIA.

Tommy Holmes, the group's legislative affairs director, described the provisions as "a virus being injected into the WIFIA program" with the long-term aim of killing it.

But both Democratic and Republican lawmakers support the WIFIA-related provisions, which also have strong backing from the National Rural Water Association.

Sen. John Barrasso, the Wyoming Republican who chairs the panel that passed the bill, said the language would "help smaller rural communities" complete waterworks upgrades.

The Senate Environment and Public Works Committee voted 21-0 to approve the Water Resources Development Act, or WRDA, legislation it passed on Tuesday.

Apart from the the squabble over WIFIA, the bill enjoys bipartisan support and has the backing of groups ranging from the National Association of Counties to the National Audubon Society.

WRDA bills typically come up in Congress every two years and deal primarily with policy for the Army Corps of Engineers, an agency that oversees infrastructure like locks, dams and levees.

But the Senate bill also has sections that deal with drinking water, sewer utilities and the Environmental Protection Agency.

Lawmakers on the House Transportation and Infrastructure Committee are taking a different approach. The WRDA bill they released last week focuses tightly on Army Corps.

"I'm committed to getting a major infrastructure piece of legislation to the president's desk," Barrasso said when asked about the differences between the bills after Tuesday's hearing.

"We're looking forward to working with the House," he added.

The version of the bill the Senate committee approved includes language that would effectively extend WIFIA lending terms to another set of waterworks programs known as the drinking water and clean water state revolving funds.

With the revolving funds, EPA awards "capitalization grants" to states. States contribute a 20 percent match, and then use the money to provide low-cost loans and other financing assistance for drinking water and wastewater projects. The funds are one of the primary ways the federal

government provides support for local water infrastructure across the U.S.

WIFIA was created in 2014. It currently allows the federal government to lend directly for water projects at interest rates that mirror the generally low rate for U.S. Treasury debt.

The program targets larger projects, with cost thresholds of at least \$5 million in communities with 25,000 people or less and at least \$20 million in bigger places.

Critics of WIFIA frequently complain that it has left small and rural communities boxed out.

This idea of blending WIFIA with the revolving funds was proposed in a bill that Sens. John Boozman, an Arkansas Republican, and Cory Booker, a New Jersey Democrat, introduced in the Senate in January. An identical bipartisan bill was also introduced then in the House.

The legislation would enable states to offer revolving fund loans, with Treasury interest rates, for water and wastewater projects that they've determined to be priorities.

In some cases, the bill would allow for interest rates that are even lower than the Treasury rate. It would also allow for loans to cover up to 100 percent of project costs, in contrast to a 49 percent cap that is imposed under the traditional WIFIA program.

"I'm proud to support this innovative provision," Booker said Tuesday.

When the possibility emerged that the WIFIA-related provisions could end up in the Senate WRDA bill, the American Water Works Association, the Association of Metropolitan Water Agencies and the Water Environment Federation sent a seven-page letter to the Environment and Public Works Committee outlining in detail why they were opposed, as Route Fifty reported earlier this month.

One of their main arguments against the legislative proposal is that it would undercut the ability of the WIFIA program to "leverage" limited federal dollars for major projects.

"Communities that wish to finance large-scale water and wastewater projects would be unable to take advantage of any of the funding made available," the groups wrote.

Holmes, with the American Water Works Association, said some boosters of the revolving fund-WIFIA concept fought against the creation of WIFIA, and have opposed appropriations for the program since then.

But Mike Keegan, who lobbies for the National Rural Water Association, applauded the WIFIA measures in the Senate bill. "This simply increases the fairness of WIFIA," he said. "Large communities can still compete."

Keegan highlighted language meant to direct funding to places with greatest "need," which he said the current WIFIA program does not do.

"This created an unfair playing field for federal funding, allowing federal funds to be used by less needy projects at the expense to the more needy," he said.

WRDA bills are not spending measures. But the Senate bill would authorize lawmakers to appropriate \$100 million annually for fiscal years 2019 and 2020 to support the types of revolving fund-WIFIA loans that the legislation proposes.

Although the EPA and the Army Corps have the authority to establish WIFIA programs only EPA has

one up and running. The agency awarded its first WIFIA loan last month—up to \$134.5 million for a Seattle-area stormwater and wastewater facility.

Estimates by states and the EPA show that needed investments in U.S. water and wastewater infrastructure will total \$744 billion over a 20-year period.

## **Route Fifty**

By Bill Lucia,  
Senior Reporter

May 22, 2018

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## **[How Public Pensions Can Start Healing Themselves.](#)**

***A series of questions and answers can help.***

Our discussion last week about representatives of the League of California Cities urging CalPERS, the state's huge pension fund for public employees, to juice up investment returns generated a lot of interesting feedback.

It is clear that public-pension funds need some help. Rather than offer specific investment recommendations, I am going to make some suggestions to help them think about what they should be considering when reviewing their own portfolios.

It is important for managers and public representatives to understand what they know, what they don't know, and what they can't possibly know. Some of the biggest mistakes in asset management come from not knowing the answers to those deceptively simple questions.

[Continue reading.](#)

## **Bloomberg View**

By Barry Ritholtz

May 21, 2018, 10:00 AM PDT

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## **[States Turn to New Tool to Sustain Pension System Funding.](#)**

***Stress tests help policymakers plan for the next recession.***

Eager to strengthen the long-term financial health of their public-sector pension systems, officials in several states have embraced a nonpartisan, data-driven approach to more precisely assess their ability to fulfill the benefit promises made to public employees.

Called stress test reporting, this new practice can show policymakers how adverse economic scenarios could affect retirement system investments and state budgets. Because earnings on investments typically make up the largest share of pension fund revenue, lower returns or losses

need to be offset by higher contributions from the state government and workers. The stress testing model created by The Pew Charitable Trusts also allows states to account for the condition of their economy and tax collections, offering a broad look at the impact of pensions on their overall fiscal health.

A forthcoming report by the John F. Kennedy School of Government at Harvard University looks at initial results using the Pew approach in 10 states.

[Continue reading.](#)

## **Route Fifty**

By The Pew Charitable Trusts

May 22, 2018

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### **[Study: Public Pension Funds Still Highly Vulnerable.](#)**

***The Mossavar-Rahmani Center for Business and Government at Harvard University studies what could happen to pension funds in 10 states under various economic scenarios.***

CHERRY HILL, NEW JERSEY — Many pension funds for public workers already owe far more in retirement benefits than they have in the bank, and the problem will only grow worse if the economy slows down, according to a report released Thursday.

The study from The Pew Charitable Trusts found that the New Jersey and Kentucky funds are in such perilous shape that they risk running dry.

Governments have been ramping up contributions to the funds to help cover the promises they've made to retirees, but that leaves less money to spend on schools, police, parks and other core government services.

Another option is reducing pension benefits. A plan to do that in Kentucky led to teacher walkouts earlier this year.

The [Pew study](#), published by the Mossavar-Rahmani Center for Business and Government at Harvard University, examines what would happen to pension funds in 10 states under various economic scenarios.

If a fund doesn't bring in enough money to cover its promised retirement costs, the state would have to make up the difference. In New Jersey, that would mean spending at least \$2 billion more a year.

"These findings don't come as a surprise and underscore the need to bolster the state's surplus," said Jennifer Sciortino, a spokeswoman for the state Treasury Department. She said Gov. Phil Murphy, a Democrat who took office in January, wants to increase the surplus by 50 percent.

New Jersey is gradually raising its contributions, but the Pew report says getting to full funding will be a challenge for the state.

Kentucky Gov. Matt Bevin, a Republican, signed a bill last month reducing some retirement benefits for current and future teachers, but not for those already retired.

On Thursday, Bevin spokeswoman Elizabeth Kuhn said the Pew findings echo warnings from the governor since he took office. She said addressing the pension fund's \$60 billion unfunded liability is his top fiscal priority.

"After years of Kentucky governors underfunding and mismanaging the pension system, the report confirms that Gov. Bevin's commitment to fully fund the system will provide a stronger financial outlook for the state," she said in a statement.

The report said that even with changes, Kentucky could be in a situation similar to Connecticut and Pennsylvania. Both states have increased state pension contributions and might have to keep them high for decades to come, squeezing out funding for other priorities in the state budget.

The report also found that the relatively healthy pension systems in North Carolina and Wisconsin are more likely to weather downturns. Pew also looked at the funds in Colorado, Ohio, South Carolina and Virginia.

Notably absent from the report was California, which has the two largest public pension funds in the nation. They had a combined \$168 billion in unfunded liabilities in 2016, according to another recent Pew report. Mennis said California's funds were not included in the stress test study because they are so large and uniquely structured.

Nevertheless, the issue has been on the mind of California Gov. Jerry Brown, a Democrat who is in his final year in office. Brown suggested earlier this year that when a recession hits, pensions "will be on the chopping block."

By Geoff Mulvihill

May 25, 2018

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## **[Congress Passed the Banking Bill. Here's What City Leaders Need to Know.](#)**

In the wake of the Great Recession, there was broad consensus that Congress and bank regulators needed to take measures to ensure the largest banks in the country, those deemed systemically important financial institutions (or SIFIs), were safeguarding themselves and the role they play in the national economy from dangerous levels of risk.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act established a host of regulations for the financial industry and defined SIFIs as banks with more than \$50 billion in assets. Consensus split on whether or not \$50 billion was a fair threshold for determining whether a bank was "too big to fail," or an arbitrary number that would harm community and regional banks.

This March, the Senate passed the [Economic Growth, Regulatory Relief, and Consumer Protection Act](#) (S. 2155), otherwise known as the Senate Banking Bill. And yesterday (May 23), after an agreement to tackle other banking legislation at a future date, the House passed S. 2155 as is and sent it to the President's desk for him to sign into law. The measure is the most substantive banking bill since Dodd Frank and eases some financial regulations.

The legislation also contains provisions, outlined below, that will help cities served by community banks by providing targeted regulatory relief, and will lower interest rates for municipal bonds by making them more attractive to large institutional investors.

**1. Community Banks:** By raising the threshold for SIFIs from \$50 billion in assets to \$250 billion, S. 2155 alleviates stricter regulations for smaller community and regional banks. Many community and regional banks fall within the original range and have been constrained by the accompanying compliance regulations that larger national banks are more easily able to meet.

By alleviating these constraints, community banks will be better able to compete in a market that has recently been marked by consolidations of smaller banks into larger ones. Regulatory relief for community banks will help encourage lending and investment in city economies across the country, spur job creation, provide stronger support for anchor institutions and strengthen local economies in communities that have lagged while the national economy has recovered.

**2. HQLA Reclassification for Municipal Bonds:** Dodd-Frank also required certain banks to meet a Liquidity Coverage Ratio (LCR) to ensure financial institutions have enough liquid assets to weather periods of financial stress. As part of the requirements, banks needed to retain certain levels of “high quality liquid assets” (HQLA).

Bank regulators failed to include municipal bonds as HQLA when they jointly issued their Final Rule on Liquidity Coverage Ratio in the fall of 2014, despite municipal debt having a near-zero default rate and being as — if not more — stable than other assets included in the final rule. Since 2014, NLC and other state, local and public finance groups have pushed for municipal bonds to be classified as HQLA.

S. 2155 instructs bank regulators to reclassify investment grade municipal bonds that are both market ready and liquid as level 2B “high quality liquid assets” (HQLA). Classification of municipal bonds would make them more attractive to larger financial institutions who would then be able to use municipal bonds to satisfy part of their Liquidity Coverage Ratio (LCR) requirements. This in turn would lower interest rates on municipal debt.

## **National League of Cities**

By Brian Egan

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### **[Congress Reclassifies U.S. Muni Bonds, Likely to Lower Borrowing Costs.](#)**

NEW YORK (Reuters) – The U.S. House of Representatives on Tuesday passed legislation that reclassifies investment-grade municipal bonds as high-quality liquid assets, a long-awaited move that public officials say will help lower financing costs on infrastructure projects nationwide.

The measure was included in bipartisan legislation, which already passed the Senate in March, that would ease bank rules introduced in the wake of the 2007-09 financial crisis.

The bill also raises the threshold at which banks are subject to stricter oversight and eases trading, lending and capital rules for smaller banks.

Cities and states sell muni bonds to finance construction of bridges, roads, schools and an array of other projects.

If the bonds are designated as so-called HQLA assets, banks can hold them as part of their liquidity requirements, therefore making the bonds more attractive overall and supporting the muni market.

“Lawmakers have taken concrete action to lower borrowing costs and better position states to invest in infrastructure projects at the state and local level,” said Beth Pearce, Vermont state treasurer and president of the National Association of State Treasurers in a statement after Tuesday’s vote in the House.

The bill now goes to President Donald Trump, who is expected to sign the legislation as part his campaign promise to try to spur more economic growth by cutting regulation.

Reporting by Hilary Russ; Editing by Lisa Shumaker

May 22, 2018

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### **Fitch: Limited State, Casino Impact From US Sport Betting Ruling.**

Fitch Ratings-New York-14 May 2018: The U.S. Supreme Court’s (SCOTUS) decision to strike down a federal law banning states from permitting gambling on the outcome of sporting events will lead to an increase in the number of states permitting sports betting, Fitch Ratings says. However, those revenues will only have a small impact on overall gaming revenue and is unlikely to have a material adverse impact on Las Vegas’ sports betting activity.

The ruling struck down the Professional and Amateur Sports Protection Act (PASPA), which unconstitutionally restricted state governments. The ruling was directly linked to a case involving New Jersey but Connecticut, Mississippi, New York, Pennsylvania and West Virginia have already enacted laws to offer legal sports betting, anticipating SCOTUS’ ruling. At least 14 other states have had sports gaming legislation introduced in recent sessions. New Jersey filed the case with SCOTUS, arguing PASPA violated the 10th Amendment, which prohibits the federal government from compelling states to impose federal laws.

Sports betting will not contribute substantially to either gross gaming revenue (GGR) or state tax revenue. Notably, sports betting in Nevada, where it is already legal, accounts for a relatively small proportion of gaming revenue. The Nevada Gaming Control Board reported almost \$4.9 billion in sports handle in 2017, with \$249 million in GGR and about \$17 million in associated state tax revenue. That is a small fraction of the state’s \$4 billion in General Fund revenue.

Casino operators could grow sports betting to a wider range of locations. However, the growth will depend on several local factors. Setting competitive tax rates will be required to draw participants from existing illegal or informal wagering pools and could limit the growth of some markets. Higher tax structures, such as Pennsylvania’s, or those with a handle-based integrity fee, which charges approximately 1% on each wager and pays it to the sports league, will limit margins for casino operators and could lower their ability to be competitive in those markets.

The impact of this expansion on casino operators will be small. We expect casino operators to set up sports books, or partner with companies such as William Hill, to offer betting at their facilities or, if permitted, online. The revenue effect will be small and Fitch expects sports books to be offered as amenities to drive higher visitation, rather than raise revenue.

We do not expect the growth of other markets to have a negative impact on casino operators in Las



Vegas. We do not anticipate sports books in regional markets will materially compete with Las Vegas during marquis sporting events, such as the NCAA Final Four or the NFL Super Bowl, as Las Vegas has firmly established its attractiveness as a leisure destination.

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Additional information is available on [www.fitchratings.com](http://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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **Insurers Pull Back From Muni-Bond Market as Tax Rates Fall.**

- **Progressive, Travelers, Chubb reduce holdings, filings show**
- **Filings confirm speculation that tax overhaul would cut demand**

Some of the biggest U.S. insurers reduced their holdings of state and local government bonds after the corporate tax cut took effect this year, marking a retreat by a key buyer in the \$3.9 trillion municipal-securities market.

The disclosures, made in filings by companies including Progressive Corp. and Chubb Ltd., confirm the speculation among analysts that the lower tax rate would weaken demand for municipal debt, which offers lower yields because the income is tax-free. The pullback, if sustained, could create headwinds for a market that's already contending with periodic selloffs as investors brace for the Federal Reserve to raise interest rates further.

Progressive, Travelers Cos. and Chubb have collectively decreased their holdings of municipal bonds by \$2.37 billion, according to their most recent quarterly reports. Progressive cut its holdings by 24 percent, the steepest drop among the largest publicly-traded property and casualty insurers. Chubb cut its investments by 4.6 percent, while Travelers reduced its stake by 2.9 percent.

"The new corporate tax rate we use to value our tax-exempt holdings rendered these bonds less

attractive relative to alternative taxable investments,” Mayfield Village, Ohio-based Progressive said in its filing.

The cutbacks came as municipal bonds posted their biggest drop during the first quarter since late 2016, when President Donald Trump’s surprise victory raised concerns that his tax and spending plans will accelerate the pace of inflation. While individual investors and mutual funds are bigger owners of state and local government securities, insurers remain a large source of demand. According to the most recent Fed statistics, the companies held about 14 percent of all outstanding municipal bonds, nearly almost as much as banks.

“It’s not a great signal when an industry that has represented a significant percentage of your investors doesn’t see it as attractive, on an absolute or relative basis, as they used to,” Meyer Shields, an insurance analyst at Keefe, Bruyette & Woods, said in a phone interview.

Not every part of the industry is retreating, and some of the pullback may have been driven as much by the market’s rocky performance or routine portfolio-adjustments as by changes to the tax code.

Life insurer Principal Financial Group Inc., which decreased its holdings by 3 percent to \$6.25 billion, still views the asset class as “important,” according to a statement by James Welch, a portfolio manager with Principal Global Investors, the company’s asset management arm.

“The first quarter was certainly difficult for all asset classes and any adjustments in allocation amounts should not be construed as a material shift in long-term strategy,” he said in the statement, which the company provided in response to questions.

Life insurers have historically been less active buyers of state and local bonds because of limits on how much they could benefit from the tax advantages, though the tax overhaul tweaked the law to give them more incentive to hold the securities. Several of the largest life insurers added to their muni portfolios this year. MetLife Inc., Prudential Financial Inc. and Lincoln National Corp. added a total of \$146 million to their holdings in the first quarter, the filings show.

MetLife, the largest U.S. life insurer by market share, upped its holdings by 0.09 percent to \$10.76 billion. That increase included a pickup in taxable munis, a decision driven by many factors including tax code changes, according to James Murphy, a MetLife Investment Management spokesman.

The approach was also mixed at Allstate Corp. and American International Group Inc., both of which have substantial property and casualty operations as well as life insurance businesses. Allstate’s muni holdings increased by 4 percent to \$8.4 billion, while AIG’s declined by 2.5 percent to \$16.94 billion.

Allstate said that “shifts in asset allocation reflect purposeful decisions intended to balance risk and return considering current and expected market conditions.”

Progressive spokesman Jeff Sibel didn’t return calls and emails requesting comment. Lincoln spokeswoman Holly Fair said the increase was not a result of tax changes. Chubb, Prudential, AIG and Travelers declined to comment.

## **Bloomberg**

By Katherine Chiglinsky, Romy Varghese, and Brian Louis

May 17, 2018

## **Fire Sale for Closed-End Muni Funds Means Only Brave Should Buy.**

- **Average discounts on muni closed-end funds are 9 percent**
- **Leverage fees are up and longer duration means more volatility**

Shares of municipal-bond funds are trading at their deepest discounts since 2013 as the rising cost of leverage, dividend cuts and the market's worst first quarter since 1996 have pushed share prices down.

The discount, or the difference between a closed-end fund's share price and the underlying value of its assets, is 9.1 percent, according to Ryan Paylor, a portfolio manager at Thomas J. Herzfeld Advisors, Inc. in Miami who invests in the sector. Those gaps reached a more than four-year high of 9.67 percent in March, dangling a potential arbitrage opportunity.

"If you've got the stomach for it, this is a fairly decent level to be adding because discounts are wide and should provide some cushion if there's a further sell-off in rates," Paylor said.

Closed-end funds raise a fixed amount of money from shareholders in a public offering, unlike mutual funds, which continually sell and redeem shares. The funds are traded on stock exchanges and can trade at premiums or discounts to their net value of the securities they own.

Many closed-end funds borrow short-term and buy higher-yielding, long-dated debt. Short-term borrowing costs in the muni market have almost doubled to 1.51 percent in a year.

Those rising leverage costs narrow the profit that can be made by investing in long-dated debt, whose yields haven't increased as much, eating into distributions to investors, Paylor said. More than 80 percent of municipal closed-end funds have cut dividends in the past year, according to data compiled by Bloomberg. Bond traders are pricing in a more than 50 percent probability that the Federal Reserve will hike rates three more times this year.

The overall muni market has lost about 1 percent this year, posting the biggest first-quarter loss in more than two decades, largely because of the January sell-off triggered by concern the Fed would raise interest rates more aggressively than previously expected.

Muni closed-end funds have fared worse, losing an average of 4.5 percent, according to Paylor. If inflation and economic growth pick up more steam, causing interest rates to rise, closed-end funds will incur even bigger losses.

This potential for higher rates and the risk that the lower corporate tax rate will spur selling by banks and insurers has led BlackRock Inc. to shorten duration, reduce leverage and buy bonds with higher credit ratings, Peter Hayes, the head of the company's municipal bond group, said in a conference call with the firm's muni closed-end investors last week.

"The market hasn't really been tested thus far," Hayes said.

But there are opportunities in closed-end funds for more conservative investors, Paylor said. Some muni-closed-end funds that don't use leverage are also trading at discounts and have higher dividend yields than municipal exchange traded funds, which trade at their net asset value. Investors

are better off buying the closed-end fund, which gives you the opportunity for price appreciation when discounts narrow, Paylor said.

"In my experience, that discount goes away," he said.

## **Bloomberg**

By Martin Z Braun

May 17, 2018

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### **[The Week in Public Finance: This Illinois Town Is on the Brink of Bankruptcy. How Many Will Follow?](#)**

*Harvey, Ill., is facing insolvency thanks to its pension crisis. Some say it won't be the only one.*

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GOVERNING.COM

BY LIZ FARMER | MAY 18, 2018

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### **[S&P: The Road Ahead For Autonomous Vehicles.](#)**

Growth of fully autonomous vehicles will be influenced by and significantly lag the market growth of electric vehicles, which could approach a 10% share of U.S. light vehicle sales by 2025 (compared to 1.1% today), behind our forecast 25% share in Europe and 20% share in China.

[Continue Reading](#)

May 14, 2018

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### **[S&P: Level U.S. State Debt Reflects Long-Term Management Strategies And Affordability Concerns.](#)**

Despite elevated credit pressures in fiscal 2017, state debt levels for the most part stayed constant. Although we anticipate more positive credit conditions heading into fiscal 2019, we think it is unlikely that there will be a significant uptick in debt levels.

[Continue Reading](#)

May 14, 2018

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## **Neighborly Issuer Brief.**

### **Solar Moves Forward in California**

The California Energy Commission [approved new rules](#) governing residential buildings requiring all residential buildings up to three stories high (including both single-family buildings and condos) to be built with solar panels. The rules go into place in 2020. There will be exceptions for buildings that can't fit panels or are hidden from the sun by vegetation or their urban environment. Solar is already responsible for about 16% of California electricity — these rules are intended to help the state reach its goal of having at least half of electricity come from renewable energy by 2030.

One issue people will have with the new regulations is the estimated \$8,000-\$12,000 more it will cost to build a new home. The Energy Commission estimates that buyers could see their monthly mortgage go up by \$40 every month. Still, this would be offset by an estimated \$80 decrease in monthly utility bills. Over time, a family would save \$19,000 in today's dollars, adjusted for inflation, over 30 years. Other estimates show higher installation costs offset by greater monthly utility savings. All the estimates we have seen show better than breakeven results for residences installing the panels.

As is the case with so many other environmental issues, California is at the forefront of innovation. Should the regulation work out favorably, this standard could not be adopted by other states as they seek to achieve environmentally beneficial goals.

In addition, should the program work favorably, there's an opportunity for California to use housing finance programs, such as municipal bonds, to assist lower-income homebuyers finance environmentally friendly homes. Bonds could also be used to finance "retrofitting" of existing housing, especially for lower-income homeowners where such a program could generate both cost savings for the homeowner as well as environmental benefit for society as a whole.

### **Oregon Introduces Sustainability Bonds**

Oregon State Treasurer, Tobias Read, [recently announced](#) the inaugural sale of Oregon Sustainability Bonds — a new category of state bonds tailored for socially responsible investors and dedicated to projects that will enhance community and sustainability efforts. The first tranche is a \$40 million federally taxable issuance to bolster affordable housing construction and home ownership programs.

Proceeds will finance grants for the construction of affordable housing projects via the State's Local Innovation and Fast Track (LIFT) Affordable Housing Program. The projects selected for inclusion in the LIFT program by the Oregon Housing and Community Services Department are in historically underserved communities and designed for households earning at or below 60% of Area Median Income.

These bonds are authorized under the Oregon Sustainability Act, which calls for developing and protecting resources so we can meet current needs while also providing that future generations can meet theirs — from the joint perspective of environmental, economic and community objectives.

The Treasurer's Office also detailed how they intend to address accountability concerns of socially responsible investment interests. There will be annual reporting on the uses and spend-down of the bond proceeds available on the Oregon State Treasurer's website until the funds are spent in full. This is a trend we anticipate will continue across the country as more investors are increasingly

mindful about where they put their money.

## **Infrastructure Dead at the Fed for 2018**

The [White House acknowledged](#) last week that one of President Donald Trump's central domestic legislative promises – a massive \$1 trillion package to fund the construction of new roads, bridges and other infrastructure projects – probably isn't going to happen anytime soon.

As a result, states and localities will remain the leaders in creating, executing and most importantly, funding their infrastructure needs. And this puts more pressure on their existing funding sources and credits as they cope with the lack of a coherent (if promised) funding plan.

Posted 05/17/2018 by Joseph Krist

## **Neighborly**

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### **[The Big Wager is On Who'll Win the Fight For the Sports Betting Jackpot.](#)**

Gambling is as woven into the fabric of American life and history as stars and stripes are woven into the pattern of an American flag.

From the neighborhood poker game to state lotteries to office March Madness pools to giant casino complexes, from fully legal to completely unsanctioned, gambling is everywhere and most of us participate.

So it might seem there's little room to ratchet up even further the pervasiveness of gambling as entertainment, as an industry and as a tool of public finance in this country.

You ain't seen nothin' yet.

What's coming is not a wave of more casino construction — while there are projects in development, including a handful in Washington, that segment of the gambling (sorry, "gaming") industry looks to be nearing saturation. Nor is there interest in putting slot machines or similar devices in every bar, restaurant store and convenience store.

Instead, the jackpot everyone is dreaming of hitting will be found in sports betting.

The U.S. Supreme Court last week struck down the Professional and Amateur Sports Protection Act, a 1992 federal law that prevented all but a handful of states from allowing betting on sporting events and contests. Stripped of legalese, the court's decision basically told Congress "butt out, this is none of your business."

That is glorious news to states that, in their never-ending quest for more tax revenue, have long and longingly eyed the millions they knew Americans were wagering on sports, never mind the laws and rules forbidding such recreation.

They weren't wrong to surmise Americans were spending sums just on sports betting that might be small individually but that amounted to millions, or more, in the aggregate.

True confession time: Your columnist, working years ago in a part of the country known for enthusiasm for both sports and gambling, used to pitch a quarter into the pool for the weekly pick-

10-games card during football season. It was organized by teachers at the local high school.

That was long before the days when office copiers worked overtime to print basketball tournament brackets and the office-pool winner was likely someone who made selections according to school colors and nicknames. Participants in those low-stakes affairs might not have seen themselves as part of the sports-wagering complex, but government did, along with bookies, offshore betting services, legal Vegas sports books and the like, and dreamed of getting a slice of the action.

Now it can.

What's fascinating about the decision is not so much the ruling itself. Given the general shift in societal attitudes toward what were once regarded as vices (hello, marijuana), the outcome seemed inevitable. When recently has some of the gambling toothpaste been shoved back into the tube?

The dramatic change has come in sports organizations' attitudes, especially for the professional leagues. Where once they decried the idea of sanctioned gambling on their contests, out of professed fear for point shaving and tampering with outcomes, now they too are getting comfortable with the notion, especially if they too get a cut of the action.

The motivation behind that shift might be less a matter of its inevitability, or that the leagues were never going to stamp out gambling. They, like government, are always on the hunt for money. But the leagues are looking at forecasts for the once bounteous revenue streams from television and not liking what they're seeing. Gambling could be the answer.

The huge question now is how legal sports betting is to be structured. The Supreme Court didn't legalize sports betting; it merely said it's up to the states to regulate.

A few states are poised to go. Oregon was one of the handful of states grandfathered in by the federal law, and has run sports-related contests through its lottery before. It's already discussing new games.

Washington is well behind, and the Legislature isn't due back in Olympia until January. Even that gap, though, might not provide enough time for all the negotiating that must be done.

What kind of betting, for example, would be allowed, and who would run it? The teams themselves? Would they outfit their stadiums and arenas with betting parlors — or make it possible to make a wager via wireless device from your seat? How about horse-racing tracks, which have long offered betting not only on their own contests but also on races at other venues?

Maybe we'll have independent bookies. Or, since this region fancies itself a hub of the online world, the next big company will be a web-based sports-wagering operation. Then there are the Indian tribes and casinos — think they might want in? And how does the state get involved? How much of a cut does it take?

Gambling has a history of disappointment, and that goes for government entities and others counting on big rewards from sports wagering. The official, professionally run sports-betting venue will attract big bettors. Will the once-a-year office-pool participants make the switch, and will the system work if they don't?

We're about to spin the wheel to find out.

THE NEWS TRIBUNE

BY BILL VIRGIN

May 19, 2018

*Bill Virgin is editor and publisher of Washington Manufacturing Alert and Pacific Northwest Rail News. He can be reached at [bill.virgin@yahoo.com](mailto:bill.virgin@yahoo.com).*

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## **[The Curious Case of Hartford: How Can a State Rescue a Debt-trapped City?](#)**

The common misconception with local government debt was that all the debt issued by the local government was backed by its full tax authority; so, if there is ever a loss in revenue or general fund deficit, the municipality will simply increase the taxes to fill that deficit. Then, Detroit, MI and Stockton, CA happened, delivering a rude awakening for many investors who simply thought local governments can never go bankrupt. For Detroit and Stockton, there was little to no state intervention to help their municipalities and it eventually led to two of the biggest municipal bankruptcies in the history of the United States. However, there have been other examples, like Atlantic City, NJ, where the City has been under major financial strain to meet even its short-term obligations and the state (New Jersey) intervened to provide the much-needed help to prevent bankruptcy.

Recently, investors and municipal debt markets witnessed something quite similar: the State of Connecticut's intervention into its capital city, Hartford, and its finances to provide much-needed financial relief. This eventually led to a four-notch credit rating boost for Hartford City debt from CCC (junk) to A (investment grade).

In this article, we will take a closer look at the State of Connecticut's intervention, its short- and long-term impacts, and what it means for other municipality General Obligations (GOs) in a similar situation.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

May 17, 2018

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## **[Municipal Bonds Weekly Market Report: Fed Chair John Williams Using Neutral Rate as Guidance.](#)**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Treasury and municipal yields all increased this week.
- Muni bond funds saw its second week of inflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.



[Continue reading.](#)

**municipalbonds.com**

Brian Mathews

May 22, 2018

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## **Fitch Updates Public Sector Counterparty Obligations in PPP Transactions Rating Criteria.**

Fitch Ratings-New York-17 May 2018: Fitch Ratings has updated its criteria for rating public sector counterparty obligations in public private partnership (PPP) transactions, including several minor clarifications in the scope of the criteria. The new criteria replace the previous version published on Dec. 13, 2017. There will be no rating changes as a result of the updated criteria.

The changes to the criteria include:

- Clarification of the distinction between international scale and national scale ratings;
- Guidance that PPP counterparty obligations for U.S. public sector enterprises such as a public college or university or a utility enterprise are assessed using the Issuer Default Ratings (or equivalents) of the entities as determined under relevant sector-specific or master criteria;
- References to Fitch's Government-Related Entities Rating Criteria replace prior references to Public-Sector Entities Rating Criteria.

The criteria report is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Between A Budget And A Hard Place: The Risks Of Deferring Maintenance For U.S. Infrastructure.**

As the world's fifth-largest economy, California enjoys a strong 'AA-' credit rating on its general obligation (GO) debt. Just seven years ago, California's 'A-' GO rating was S&P Global Ratings' lowest for any state. Better budget management that began in 2011 combined with an increase in personal income taxes—which drive much of the state's revenues—have led to a gradual recovery in California

[Continue Reading](#)

May 15, 2018

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## **EPA Extends Deadline to Apply for a WIFIA Water Infrastructure Loan.**

WASHINGTON -- Today, the U.S. Environmental Protection Agency (EPA) Administrator Scott Pruitt announced at a meeting with water sector associations that the deadline to submit letters of interest for Water Infrastructure Finance and Innovation Act (WIFIA) loans has been extended to **July 31, 2018**. Administrator Pruitt also sent a [letter](#) highlighting the deadline extension to governors of 56 states and territories as well as tribal leadership.

"By extending the deadline to apply for a WIFIA loan, even more entities will be able to bring critical water infrastructure improvements to their communities, including projects that keep lead and other contaminants out of drinking water," said EPA Administrator Scott Pruitt. "These projects create jobs, protect public health, and help ensure that all Americans continue to have access to clean and safe water."

EPA's announcement comes as part of Infrastructure Week and highlights the importance of working together with the water sector on a variety of topics, including affordability, governance, and the Clean Water and Drinking Water State Revolving Funds (SRFs).

Also in conjunction with Infrastructure Week, the Agency released a [new interactive website](#) that showcases leading efforts by states, public water systems, and communities to replace lead service lines.

### **Background**

Established by the Water Infrastructure Finance and Innovation Act of 2014, the WIFIA program is a federal loan and guarantee program at EPA that aims to accelerate investment in the nation's water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects. WIFIA can provide up to 49 percent of the financing for a project and a state SRF could provide additional financing for the remaining eligible project costs. The WIFIA program received \$63 million in funding in the Consolidated Appropriations Act, 2018, which was signed into law by President Donald Trump on March 23, 2018.

On April 4, 2018, EPA [announced the availability of additional WIFIA funding](#) that could provide as much as \$5.5 billion in loans, leveraging over \$11 billion in water infrastructure projects. This year's WIFIA Notice of Funding Availability highlights the importance of protecting public health, including reducing exposure to lead and other contaminants in drinking water systems and updating the nation's aging infrastructure.

On April 20, 2018, EPA [issued its first WIFIA loan](#) to King County, Washington. The \$134.5 million loan will help finance a new wet weather treatment station that will better protect public health, improve water quality, and create more than 1,400 jobs—all while saving up to \$32 million compared to standard financing over the life of the loan.

According to EPA's estimate of drinking water and wastewater needs, over \$743 billion is needed over the next twenty years for water infrastructure improvements. WIFIA financing and the SRFs will play an important part in fulfilling this need. With the latest two appropriations totaling \$93 million, WIFIA loans can be combined with other public and private funding, to finance approximately \$16 billion in infrastructure needs. EPA's FY2018 budget includes \$2.9 billion for the SRFs.

For more information about the WIFIA program and resources to use when applying, visit [www.epa.gov/wifia](http://www.epa.gov/wifia)

05/15/2018

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## **[The Department of Energy's Loan Guarantee Program Presents a Crucial Opportunity to Fund U.S. infrastructure.](#)**

Now that congressional action on a major federal infrastructure bill is going nowhere fast, the U.S. Department of Energy's (DOE) loan program, with \$40 billion in existing spending authority, is a here-and-now opportunity to address key U.S. infrastructure needs.

I have been making the case, including at a February 2017 House Science Committee hearing, that the tens of billions of dollars available to the DOE Loan Programs Office (LPO) could be a significant down payment on the \$1 trillion investment in infrastructure called for by President Trump. The program has already made infrastructure investments in electricity transmission, carbon capture and sequestration, utility-scale electricity storage, nuclear projects, and advanced vehicle manufacturing.

Now, with the infrastructure bill adrift and the recent "omnibus" spending bill having rejected the Trump administration's efforts to eliminate the loan program, policymakers have a great opportunity to continue this valuable program and reposition it as an important tool for making progress on innovative energy and transportation-related infrastructure projects that face challenges raising capital.

[Continue reading.](#)

### **The Brookings Institute**

by Dan Reicher, Executive Director, Steyer-Taylor Center for Energy Policy and Finance, Stanford University

May 17, 2018

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## **[The Road to Economic Revival In the Heartland Runs Through Older Industrial Cities.](#)**

Even as the U.S. economy hits new highs, the political and economic divide between America's coastal cities and the rest of the country remain a focal point of the national debate. Amid this rising regional inequality, the question of how to revive broad-based economic growth in the middle of the country has received substantial attention.

In our [new report](#), we contend that policymakers who are serious about revitalizing the Heartland should focus on the region's older industrial cities (OICs). These places—including large urban areas like Detroit, Pittsburgh, and Cleveland, as well as smaller communities like Albany, Ga., Janesville, Wisc., and Dubuque, Iowa—once formed the backbone of America's manufacturing economy, but have since struggled to transition to a more digital economy. Despite their challenges, these cities and their considerable economic assets could help accelerate that transition for regions of our country at risk of being left behind.

[Continue reading.](#)

### **The Brookings Institute**

by Cecile Murray and Alan Berube

Tuesday, May 15, 2018

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## **[Charts of the Week: Focus on Infrastructure.](#)**

In a [new blog series for Infrastructure Week](#), the Metropolitan Policy program at Brookings examines infrastructure through the lens of people's expectations: whether infrastructure is accessible, affordable, and safe. Much of this research shows that infrastructure often creates economic barriers and policymakers could do a better job of measuring and meeting people's needs. Below are three charts from the series we found interesting. For more posts on infrastructure, [click here](#).

[Continue reading.](#)

### **The Brookings Institute**

Allison Branca

Thursday, May 17, 2018

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## **[Private Water Utility Shareholders Reject Transparency Proposals.](#)**

The proposals would have required American Water to make new disclosures on political contributions and lobbying.

Investors in the nation's largest publicly-traded water and wastewater utility rejected proposals last week that called for the company to issue reports about political contributions and lobbying activities.

American Water runs utilities in about 1,600 communities, in 16 states, with about 3.4 million customers. The company's "regulated businesses," which include its utilities, recorded about \$2.9 billion in operating revenues in 2017, according to an annual report.

Two asset management firms offered the disclosure proposals during a stockholder meeting in Camden, New Jersey on Friday.

Boston Common Asset Management, LLC, a firm that describes itself as pursuing both financial returns and "social change," requested an annual report from American Water showing policies and payments for lobbying activities, along with other related information.

A description of the proposal says the company has spent over \$1.1 million on federal lobbying since 2010, and that it engages in extensive lobbying at the state level, where disclosure is "uneven or absent."

"Lobbying transparency is in the best interest of American Water and its shareholders," said Kate Monahan, a shareholder engagement associate with Friends Fiduciary Corp., who Boston Common Asset Management authorized to present the proposal during the meeting.

In an opposing statement to the proposal, American Water said it fully complies with federal, state and local lobbying disclosure laws, and that the requirements in the proposal are vague, would be cumbersome to carry out and are not standard among competitors.

The political contribution disclosure proposal was offered by Trillium Asset Management, LLC, which says its investment strategy incorporates environmental, social and governance factors.

The proposal called for American Water to produce reports describing policies and procedures for making contributions to political campaigns or to influence ballot initiatives, as well the amounts, recipients and other details for the contributions.

American Water's opposing statement says its political contributions are subject to federal and state public disclosure rules and that much of the information that would appear in the requested reports is already publicly available.

The company also says it is committed to adopting a policy this year to guide direct political contributions and that it would publish this online. And that, beginning with 2018, it aims to provide information on its website about political contributions, after each fiscal year.

Shareholders shot down both proposals, according to preliminary voting results announced at Friday's meeting.

They also rejected a third proposal, which asked for a report to shareholders tracking American Water's "impacts and responses on the human right to water and sanitation."

The proposal, from NorthStar Asset Management, Inc., suggested the report include information like: whether and how the company identifies business partners with poor track records on human

rights and the environment; and the percentage of customers paying water rates exceeding 2.5 to 3 percent of monthly household income.

American Water's board opposed this report, too. The company said it would be duplicative with publications it currently issues (such as its Corporate Responsibility Report), and it said its business is already extensively regulated when it comes to issues like setting rates.

New Jersey, Pennsylvania, Illinois, Missouri, Indiana, California and West Virginia have the bulk of American Water's customers.

The company said in its 2017 annual report that it had plans for \$7.2 billion in capital investment over five years, mainly for upgrading pipes and water and wastewater treatment facilities.

It also said a core part of its growth strategy is to pursue acquisitions of small and medium water and wastewater systems, with between 1,000 and 30,000 customers, that are near where the company now operates.

## **Route Fifty**

By Bill Lucia  
Senior Reporter

MAY 13, 2018

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## **[Using Asset Recycling as an Infrastructure Funding Mechanism.](#)**

"Where will the funding come from?"

It's a question that had dogged President Trump's infrastructure plan - and more broadly, many U.S. infrastructure improvements in general - from the get-go. And while public-private partnerships (also known as P3s) have been cited as a key to filling the funding gap at the state and local level, how exactly such P3s could — or must work may depend on the specific project and its host municipality's regulations, including bidding, procurement, and other requirements, some of which are decades old.

For the most part, when people think about a typical P3, they picture design, build, finance, operate, and maintain (DBFOM) agreements, such as with [Florida's I-595 Express Corridor Improvements Project](#). At their core, such P3s involve state or local governments partnering with private organizations on the construction of one specific project. While DBFOMs have been successful in bringing some projects to life that otherwise wouldn't have been possible, they do little to replenish the dwindling coffers of local governments.

A separate type of public-private partnership — "asset recycling" can help generate immediate revenue for municipalities while at the same time ensuring infrastructure improvement needs are met. Asset recycling P3s have generated a lot of buzz in other parts of the world (Canada, Australia and the UK, specifically) but such transactions are used less often domestically for a number of reasons, not the least of which are the aforementioned antiquated regulatory hurdles, which often deter investors from pursuing possible asset recycling transactions.

**So, what exactly is asset recycling, how does it work, what are the challenges associated**

## **with making it possible in the U.S., and what does the future hold?**

In its simplest terms, asset recycling involves the sale or lease of a government owned asset to a private entity to raise funds for the governmental entity. Such assets are typically unused or underutilized land or buildings, or assets that are more valuable, for any number of reasons, if they are sold or leased to a private entity for an up-front payment. The private entity agrees to assume operation of the leased or sold asset, such as an airport, bridge, toll road, wastewater facility, or parking facility, and to improve or maintain the asset according to predetermined standards.

Also referred to as asset “monetization,” asset recycling enables municipalities to receive upfront proceeds and shifts the operational burden to a private entity, who assumes all operation and maintenance (“O&M”) costs associated with the monetized asset. If applicable, the private entity also collects any revenue generated from such operations. After being sold or leased, the up-front funds received by the governmental entity can be used to finance construction of a new asset, repair or make improvements to an existing asset or to invest in any other way the municipality deems appropriate, such as investing in pension shortfalls or retiring old debt.

For public entities, the first step in the asset recycling process involves taking a full inventory of owned assets to assess which, if any, may be attractive and appropriate to sell or lease to a private operator. Assets ripe for monetization often include those capable of generating predictable revenue so that the private operator can ensure both a sufficient rate of return and identify, at the outset, funds that will be available to improve and maintain the leased or purchased asset. Examples of such revenue-generating assets that we have seen monetized in the recent past include sewer and water treatment facilities, parking garages and meters, school district buildings, courthouses, libraries, and golf courses. In New York City, for example, an audit from the city comptroller’s office revealed more than 1,100 vacant lots that were essentially unused and ripe for asset recycling.

In order to determine the fair market value of the asset and to set reasonable expectations for up-front revenue that could be earned, local officials must collect detailed information regarding revenue generation figures and lifecycle costs. In a majority of cases, this requires assembling experts in the legal and financial fields who have experience in the sale and/or lease of public assets. It is important to note, however, that the only way to extract maximum value from monetization as an asset is often to set in place a competitive bid process whereby multiple potential private owner-operators bid against each other for the right to lease or purchase a revenue-generating municipal asset. In Pittsburgh, for example, local officials set a benchmark for what they hoped to net from the monetization of the city’s parking system. Much to the city’s surprise, its well-executed and designed competitive bid process produced a winning bid that was several times the initial target amount. Although the Pittsburgh parking transaction ultimately cratered for political reasons it is an excellent example of how competition and a well-designed procurement process can flesh out the true market value of public assets.

With a lease agreement, the municipality maintains ownership of the leased asset, and at the end of the lease period can either resume operation of the asset or negotiate a new lease agreement with the same or a different operator. Unlike with an apartment lease, however, the private entity assumes many (if not all) of the risks of ownership, including unexpected repair and maintenance costs. While up-front proceeds are certainly a “plus” with asset leases, shifting risk and obligation to a private entity can be the true motivating factor for a municipality looking to monetize an asset.

One particularly successful and creative asset leasing example that our team facilitated was the long-term lease of the parking assets of the city of Scranton, Pennsylvania, where the city hoped to lease its parking assets to help shed crippling debt. Facing stiff competition from local parking facilities and fatigue and frustration from taxpayers who for years were called upon to bail out a

severely over-leveraged parking system, our team was able to negotiate a lease with a non-profit entity that featured sacrificed lower up-front proceeds in exchange for long-term rate and fee control. Not only did the deal help eliminate the city's approximately \$3 million in annual parking-related debt, but it appeased taxpayers because the non-profit entity could offer fee and rate increases that were less than what the government operators would have implemented. Moreover, the city of Scranton was able to shift burden away from the municipality to the non-profit.

For many, the benefits of asset recycling, on both the public and the private side, seem obvious. The public gets the chance to raise funds to support infrastructure improvements by selling or leasing often burdensome assets, and private parties get the chance to turn unused property or inefficient operations into profitable assets with predictable returns.

However, asset recycling transactions face regulatory and political hurdles that are sometimes impossible to clear.

From a regulatory standpoint, certain states and municipalities either outright prohibit public-private partnerships, have rules in place that make it extremely difficult for monetization P3s to work as intended, and/or have no concept of how to manage a P3 transaction effectively and in a way that creates benefits for both sides.

Even Pennsylvania, which passed the Public and Private Partnerships for Transportation Act in 2012 to allow P3s for use in transportation projects, has limitations on the extent to which P3s can work. Not only does Pennsylvania's P3 Act apply only to transportation projects, meaning needs in water and wastewater systems, energy, brownfield sites, and more, are not specifically addressed in the Act, but the Commonwealth's P3 Act also mandates compliance with Pennsylvania's Separations Act, which requires the competitive low-bid award of multiple prime contracts for mechanical, electrical and plumbing (MEP) work. The P3 Act is a step in the right direction, and adherence to the Separations Act is by no means impossible, but the limitations imposed by both laws, especially the century-old Separations Act, can add additional layers of complexity and added costs to complex projects that already have thin margins and many other challenges.

Beyond formal regulation, the politics that surround asset monetizations can derail transactions before they even start.

For example, taxpayers may be wary of a private company taking over operations of a public asset with the goal of generating revenue for itself. Even if the private company can show that it will operate the asset more efficiently, save money in the long run, and generate immediate revenue for the public to use on more pressing infrastructure needs, it can still be a challenge to convince the masses that P3s are in the public's best interest. After all, a taxpayer may reason, the private operator is outside the reach of standard checks-and-balances that police how the current government operates the asset.

Careful thought and planning must go into explaining to constituents the benefits of a P3 as taxpayers - understandably so - often see only that their government is selling an asset to a private operator. And, along with such sale, the municipality is giving up control over rate setting. Although reasonable, this initial reaction is generally misplaced and could torpedo a P3 that would otherwise be in the best interest of the municipality. Local elected officials should offer transparency and access early and often to avoid the spread of misinformation.

Whether or not an infrastructure bill passes any time soon shouldn't limit asset recycling from becoming more prevalent in the U.S.; when structured properly, asset monetizations work well and should be strongly considered in appropriate circumstances. In the meantime, private entities and



municipalities can take action to ensure asset monetization P3s are here to stay.

On the private side, companies should work with federal and state legislators to remove prohibitive regulations that can discourage private investment in public infrastructure. Simply explaining the benefits and international success stories of asset recycling to lawmakers is a good first step.

For state and local governments, officials first need to realize the potential benefit to taxpayers in allowing private companies to lend their expertise and access to capital to more efficiently operate struggling, municipal owned assets. Not only will the up-front windfall help generate new infrastructure or improve existing assets, but asset monetizations can also prevent tax hikes by finding alternate sources of revenue. Finding a way to finance infrastructure improvements without correspondence tax hikes can also be a nice feather in the cap of an official come election time.

**While the country's leaders continue to search for an answer to the question, "Where will the money come from?", one thing appears likely: the existence of valuable municipal assets to sell or lease, when coupled with appropriately tailored regulations, and public-private buy-in, suggests asset recycling will become an even more useful tool for state and local governments struggling to identify sources to fund infrastructure improvements.**

by William P. Conaboy Jr and Terrence Heubert

May 14, 2018

**Buchanan Ingersoll & Rooney PC**

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## **[Infrastructure Deals Top U.S. Muni Bond Sales Next Week.](#)**

May 11 (Reuters) – Highway, airport and other transportation deals will dominate next week's estimated \$10.7 billion of new U.S. municipal bond and note sales, according to Thomson Reuters preliminary data.

The largest deals hail from Texas, Pennsylvania, New York, California. They represent a big jump from this week, when an estimated \$7.2 billion of new sales came to the municipal market.

Next week's infrastructure deals are well timed for National Infrastructure Week, when leaders of state and local governments will descend on Washington to raise awareness and enthusiasm for investing in U.S. infrastructure projects.

The largest deal is \$1.5 billion from Grand Parkway Transportation Corp in Texas, which aims to build a proposed 184-mile (296-km) highway, dubbed the Grand Parkway, around Houston. The deal is broken into \$911 million of subordinate tier toll revenue bonds and \$611 million of bond anticipation notes.

The New York City Transitional Finance Authority plans to sell \$1.1 billion of future tax secured subordinate bonds, broken into a five-part series. The funds will be used to finance various capital projects.

Another infrastructure project, the Airport Commission of the City and County of San Francisco, too, aims to sell \$914 million of revenue and refunding bonds.

From Pennsylvania, the state's turnpike commission will sell \$445 million of oil franchise tax revenue bonds. The Commonwealth of Pennsylvania, is also on the calendar with a megadeal with \$1.25 billion of general obligation bonds slated to sell next week.

(Reporting by Robin Respaut in San Francisco; editing by Jonathan Oatis)

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## **Municipal Issuers Log Second Straight Monthly Increase in New CUSIP Request Volume.**

NEW YORK, May 10, 2018 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a second straight monthly increase in requests for new municipal bond identifiers, while CUSIP request volume in other asset classes declined. This is suggestive of steady pace of new municipal issuance and a possible decline in corporate issuance in the second quarter of 2018.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,357 in April, down 5.8% from March. On a year-over-year basis, corporate identifier request volume for the first four months of 2018 is still 6.5% higher than the same period in 2017, reflecting a strong pace of new request volume in the first quarter of this year. Overall corporate request volume was driven by 843 new requests for U.S. corporate equity identifiers, 853 new requests for U.S. corporate debt identifiers, and 405 requests for combined Canadian corporate debt and equity identifiers.

Municipal CUSIP requests showed steady volume in April. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – logged a 0.3% increase over March activity. This is the second straight month of growth in the municipal category, following on the heels of a 30.9% monthly increase in pre-market muni activity in March. On a year-over-year basis, total municipal identifier request volume is down 23.4% versus the same period last year. Prior to March, municipal bond issuance had been trending downward following the implementation of the Tax Cuts & Jobs Act, which repeals advanced refunding of municipal bonds.

“The CUSIP request volume we’re seeing in April in the municipal category is noteworthy because it shows that the large increase we saw last month was not a fluke,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “The increase is likely driven by a combination of factors that include the desire of many municipalities to get new issues funded before further interest rate increases, and basic funding needs.”

International debt and equity CUSIP International Numbers (CINS) both declined in April. International equity CINS were down 7.8% during the month, while international debt CINS decreased 5.1% during the month. On a year-over-year basis, international equity requests were up 23.8% and international debt requests were up 8.2%, reflecting continued volatility in international markets.

To view a copy of the full CUSIP Issuance Trends report, please [click here](#).

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## **Aging Baby Boomers: Implications For Munis.**

By 2035, the elderly will outnumber young people for the first time in American history.<sup>i</sup> Or so say new projections released by the U.S. Census Bureau. This graying of the U.S. population is largely attributable to the aging baby boomer generation, which is retiring in ever-increasing numbers. The number of people over the age of 65 is growing by about 3% per year-four times faster than overall population growth.<sup>ii</sup> This developing demographic shift will likely have profound and far-reaching impacts on state pensions, healthcare, education, and more, and consequently on the municipal bond market as well.

### **State Pension Budget Pinch**

As baby boomers retire, state budgets are likely to feel a significant financial pinch when it comes to pension obligations. It is simple math: with a shrinking proportion of working-age adults-to-retirees, there may simply not be enough revenue to support the generous pensions that many states' defined benefit plans have promised, the unfunded liabilities of which already stood at some \$574 billion as of 2011.<sup>iii</sup> This will probably necessitate a reduction in services, an increase in taxes, pension reforms, or some combination of the three. States could look to address some of these issues by offloading funding obligations to local governments. This, in turn, could prove to be a major problem for municipalities, which, on average, depend on state governments for a third of their revenue.<sup>iv</sup> As state governments grapple with unfunded pension liabilities, local governments may need to raise property taxes to generate additional revenue as they are forced to shoulder an increasingly high share of the cost of delivering essential services to residents.

### **Looming Healthcare Gaps**

Much has been made of the looming funding gaps facing Social Security and Medicare, and rightfully so, as demographic trends point to an eye-popping \$100 trillion shortfall in funding for these federal programs over the coming decades.<sup>v</sup> However, there is another ticking time bomb that may prove far more relevant to state and local governments as the population ages, and has received far less attention: Medicaid, which helps pay for the healthcare of low-income citizens and their children, the disabled, and the elderly. As of 2014, Medicaid spending for those over 65 accounted for around 20% of all Medicaid costs, and this figure will probably grow in the coming years.

Thanks to Medicaid's status as a joint federal/state program, states' shares of the spending can range from 17% to a statutory maximum of 50%. However, while Social Security and Medicare are funded out of trust funds, state funding for Medicaid are drawn from the states' general revenues. It already accounts for roughly 17% of state general budget expenditures, on average, and are already the second-highest spending category.<sup>vi</sup>

### **Education Squeeze**

Although Medicaid spending today is already a large line item, it is dwarfed by state spending on education. The 50 states devote an average of 35% of their respective budgets to education, making it the largest single category of expenditures in state budgets.<sup>vii</sup> Some states, such as Utah, where one in five residents is a student, spend upwards of 50%, while others, such as Illinois, with its unfunded pension obligations, spend significantly less than the average (in Illinois' case, just 25%).<sup>viii</sup>

What happens to education funding when state budgets are squeezed by ballooning Medicaid costs and unfunded pension obligations on a historic scale? After all, the two expenditures have already

been chewing up the highest proportion of state budgets since the 1960s.<sup>ix</sup> States could be forced to cut education spending. Indeed, this is already happening. State funding for higher education and state revenue sharing has been in decline since 2008.<sup>x</sup>

These cuts to state education spending could also further exacerbate inequality in poor school districts that cannot rely on high property taxes to raise the funds necessary to cover a shortfall. Already, in 23 states, state and local governments are spending less in poorer school districts than they are in more affluent ones.<sup>xi</sup> In some states, the discrepancy in spending between the poorest and richest districts can reach as high as 33%.

## **Opportunities in ETFs**

Individual investors in municipal bonds have long basked in the relative “security” of the overall credit quality and reliability of the income stream. But some of the underlying tremors identified here suggest that, without forgoing the opportunity for tax-free income, the allocation of investible resources in a municipal fund, such as an ETF, may offer added protection. Simply, a portfolio of 10 different bonds cannot provide the same level of security as an ETF with 1,000 different bonds. The challenges discussed are most certainly significant to the baby boom generation, as they are to the entirety of those investing in tax-free income, but ETFs can offer investors a way to access potential opportunities.

## **Post Disclosure**

i NPR. “Projections Show an Aging U.S. Population.” Mar. 14, 2018

ii Fuchita, Yasuyuki, et al. *Growing Old: Paying for Retirement and Institutional Money Management after the Financial Crisis*. Brookings Institution Press, Nomura Institute of Capital Markets Research, 2011.

iii Ibid.

iv Kiewiet, D. Roderick, and Mathew D. McCubbins. “State and Local Government Finance: The New Fiscal Ice Age.” *Annual Review of Political Science*, vol. 17, no. 1, May 11, 2014, doi:10.1146/annurev-polisci-100711-135250.

v Ibid.

vi Ibid.

vii US Census Bureau. “State Government Finances Summary Table.” 2016 Annual Survey of State Government Finances Tables, United States Census, Feb. 2, 2018.

viii Ibid.

ix The Wall Street Journal. “Why Are States So Strapped for Cash? There Are Two Big Reasons.” Mar. 29, 2018.

x Ibid.

xi The Washington Post. “In 23 states, richer school districts get more local funding than poorer districts.” Mar. 12, 2015.

May 9, 2018

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## **Did The Tax Cuts And Jobs Act Make Treasuries More Attractive Than Munis?**

It seems we can't go a single day without a story about the effects of The Tax Cuts and Jobs Act. And right now, as the GOP takes credit for lower unemployment, a surge in consumer confidence and increased optimism among small businesses and manufacturing, we think it's important to look a little deeper to figure out what the resulting trade is. Whenever an equation is changed substantially in economics, one must always ask, "And then what?"

Every change in the macroeconomic composition of the United States has knock-on effects, and those effects have effects. For example, whenever there's a major change in the tax code, one constituency benefits from a cut, while another constituency picks up the slack to fund the government. In turn, those constituencies who are affected have certain knock-on effects, which get reflected in the real economy, as well as the financial markets.

When The Tax Cuts and Jobs Act was enacted in late 2017, corporate tax rates dropped to 21% at the highest marginal rate. Politics aside, lower rates mean fiercer price competition for goods — this benefit gets passed directly on to consumers. Major companies like AT&T and others announced one-time cash bonuses for their workers as a direct result of this. It is hard to deny that the economy has shown stronger signs of growth since this legislation was passed; corporates have reported strong earnings through Q1 and leading indicators for Q2 look very positive. We would still caution — correlation does not always equal causation.

[Continue reading.](#)

**Forbes**

by Bob Haber

May 9, 2018

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## **Pre-Trade Activity in Corporate and Municipal Bond Markets Show Big Gains in March.**

"The big story this month is the strong growth we're seeing in requests for new muni identifiers," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While March typically has a higher volume of muni issuance than January and February, this increase in demand for new muni identifiers is noteworthy following the declines we've been seeing ever since the Tax Cuts and Jobs Act was passed."

[Read Press Release.](#)

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**2018 GFOA Standing Committee Membership Application Process.**

Applications to become a GFOA standing committee member are being accepted **through July 27, 2018**. Serving on a standing committee is an excellent opportunity for GFOA members to contribute their experience and knowledge to the entire membership. GFOA's seven standing committees meet twice each year and develop best practices, advisories and policy statements for the approval of the Executive Board and membership. GFOA associate members from the private sector may also apply to be advisors to one of the committees.

Please note that GFOA does not provide for the reimbursement of expenses incurred in connection with committee activities. Please review the [Standing Committees Policies and Procedures](#) for other committee guidelines.

The GFOA's seven standing committees are – Accounting, Auditing and Financial Reporting; Canadian Issues; Economic Development and Capital Planning; Governmental Budgeting and Fiscal Policy; Governmental Debt Management; Retirement and Benefits Administration; and Treasury and Investment Management.

- Complete the application [here](#).
- If you are a current GFOA committee member (and at the end of your first term), please complete the application for re-appointment [here](#).

If you have any questions about the committee application, please contact [Emily Brock](#).

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## **[Not So Great GASB: Accounting Rule Pushes Hospital Near Default.](#)**

- **Public hospitals face downgrades due to pension accounting**
- **Government accounting standard puts pensions on the books**

The financial health of Magnolia Regional Health Center, a 200-bed public hospital in northern Mississippi, has gone from fair to serious condition all because of an accounting rule.

Magnolia is in danger of breaching the covenant on a \$74 million municipal-bond issue because the rule requires the hospital, whose employees are members of Mississippi's pension fund, to bring onto its books its share of the retirement system's \$16 billion unfunded liability. The \$127 million obligation has pushed its debts above a limit set by bondholders and may cause a default as soon as early next year — an event that would allow investors to demand immediate repayment or take control of the hospital.

In late March, Moody's Investors Service downgraded Magnolia to junk, saying default is likely if it can't strike a deal with creditors.

The Corinth, Mississippi hospital is an extreme example of how an accounting rule has shaken up the \$3.9 trillion municipal-bond market by requiring the disclosure of pension debts that some borrowers were allowed to keep off the books for years. In December, Moody's downgraded bonds issued by the Spartanburg Regional Healthcare System because operating revenue wasn't keeping up with its increased debt load and said the system's participation the South Carolina retirement system would put "long term pressure" on its credit rating.

Fitch Ratings downgraded Cleveland's MetroHealth to junk last month for similar reasons.

"That additional expense is lowering their margins," said Fitch analyst Kevin Halloran. "It's going to

continue to catch people's eyes."

The accounting change has posed particular problems for Magnolia because the hospital agreed to the benchmarks in its bond contract three years before the rule, known as Government Accounting Standards Board Rule No. 68, took effect in 2014. With a technical default now looming, the yield on bonds due in 2031 rose to about 4.8 percent by the end of last month from 3.5 percent in early January.

Magnolia has asked a Mississippi court for a judgment to prevent a technical default or change the bond covenants to remove the effects of GASB 68.

"Magnolia Regional has never defaulted on or failed to timely make any bond payment or other obligation, continues to remain financially viable and, through no fault of its own, is in danger of being placed in technical violation of its bond covenants," the hospital said in a [complaint](#) filed in February.

### **Fund Liability**

In its lawsuit Magnolia cites a Mississippi Attorney General Opinion from March 2017 that individual participants aren't required to fund the liability of the state pension.

Magnolia has met with trustee Regions Bank and is seeking an agreement with investors to amend the bond covenants, said Brian Craven, Magnolia's chief financial officer. The hospital disagrees with Moody's that it will fall below a debt service ratio required by investors in the current fiscal year, he said.

"It is not out of the question that it could happen, but improved operating performance in 2018 has made this much less likely than in 2017 regardless of the performance of PERS [Public Employees' Retirement System] in 2018," Craven said.

GASB 68 requires that municipalities participating in multi-employer pensions report their proportionate share of the unfunded liability and that net pension liabilities be included on governments' statement of net assets.

There are 956 state and local government community hospitals in the U.S., according to the American Hospital Association, although it's not clear how many of them participate in multi-employer pensions.

The accounting rule is creating credit problems for the hospitals even though their operations haven't changed materially and they're making required contributions to state pensions. Magnolia contributes 15.75 percent of its annual payroll to Mississippi's pension, in addition to employee contributions of 9 percent.

When Magnolia issued the bonds in 2011, investors required the hospital to produce total income for debt service of at least 125% of maximum annual debt service for any fiscal year. If the percentage fell below 125% the hospital was required to hire a consultant to help improve operations. If income fell below 100%, bondholders could declare a default.

Taking into consideration its \$127 million portion of the Mississippi's pension's liability, Magnolia had 117% total income for debt service for the fiscal year ending Sept. 30, 2017. Moody's expects the hospital to fall below 100% debt service coverage in the current fiscal year.

In March, a Mississippi court prohibited Regions from requiring Magnolia to hire a consultant



through the conclusion of the case.

The outcome for South Carolina's Spartanburg Regional may be a good sign for Magnolia. When that hospital adopted GASB 68 in 2015, it booked a net pension liability of \$568.6 million, sending its debt as a percentage of assets soaring to 106 percent and exceeding the covenant of below 65 percent.

But bondholders were willing to rescue it from default. They agreed to waive the covenant violation and revise their contract so the pension obligation isn't included in debt-service coverage calculations, said Meredith Moore, a Moody's analyst.

## **Bloomberg**

By Martin Z Braun

May 9, 2018, 8:07 AM PDT

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### **Counties 'Riding Out' Bump in Tariffs.**

#### **Counties with steel production see boost from tariffs, but won't depend on them to save local economies**

County officials in regions supporting steel production are encouraged by recent tariffs on steel and aluminum imports, but others are concerned about the consequences of upsetting the international trade balance, both globally and at home.

President Trump declared that the 25 percent tax on imported steel and 10 percent tax on aluminum would put the industries on an even playing field with international competition, which has prompted talk of a trade war with China. But in northern Minnesota's Iron Range, where most domestic ore is mined, St. Louis County Commissioner Tom Rukavina was pleased with the tariffs.

"For years, I've said that we have to ensure we have a viable steel industry in the United States, whether it's for bridges and buildings or for machinery or ships and tanks," he said. "In that regard, what President Trump has done is something that should have been looked at a long time ago."

Rukavina said protectionism has already paid off for St. Louis County, crediting the Obama administration's 2016 duty on steel imports, aimed at punishing foreign producers from selling steel below cost, with bringing a lot of St. Louis County's workforce back to the mines.

"That's actually what put people back to work around here," he said.

Lake County, Ind., with two U.S. Steel mills in its borders, should benefit, too as well as the five operating integrated steel mills in northwest Indiana. But the tariffs are only a leg up for the county.

"We are aware of the challenges that the steel industry faces due to the onslaught of these steel imports, more importantly, these things are going to provide an even playing field for the steel industry," said Karen Lauerman, president and CEO of the Lake County Economic Alliance.

While the tariffs could provide some temporary support for the steel industry, Lauerman says that's more of a reason than ever to move beyond just steel.



"Even without international trade cutting in, the steel industry is modernizing and becoming more advanced, it's always evolving and changing," she said. "What we can do as a county is build on the foundation of the steel industry and attract new technology and manufacturing jobs and opportunities."

In Madison County, Ill., U.S. Steel had announced plans to bring its Granite City mill online after idling it two years prior. County Board Chairman Kurt Prentzler said the tariff bolstered the move and gave residents a sense of security, even though the news about the mill predated the tariff.

"After all of our history of steelmaking in the United States, I think it's fair to have an American steel industry," he said, acknowledging the tariff was a signal from the federal government that domestic steel production was important. He stressed that production of materials necessary for domestic energy production, particularly oil and gas drilling, were matters of national security and central to American self-reliance.

While steel producing counties are riding high, that sentiment is not universal, particularly for industries that use the steel, or regions that manufacture products or grow crops that could be targeted in a trade war.

Spartanburg County, S.C. Councilman David Britt worries that protectionism will upset the international market that has integrated itself into counties around the country. Britt chairs the county's Economic Development Committee and is a member of the Economic Futures Group.

He points to 125 international companies that have taken root in Spartanburg County over the last 30 years, including BMW's first production facility outside of Germany, which has fueled a lot of the county's economic growth.

"This is going to put a foot on the throat of economic development, which impacts the citizens of Spartanburg County, the state and this country," he said.

"My biggest concern is that somebody is not telling the president what he needs to hear: This steel industry that he is concerned about, you're talking 100,000 employees," he said. "In upstate (South Carolina) alone, you're talking that many employees in different industries. It goes up to the millions, when you look at the southeast. that will be affected by this."

The BMW plant, which opened in 1994, now produces the most BMW car engines in the world. The company contracts out the work on all the other auto parts and the tariffs increase costs for every manufacturer that uses foreign steel and aluminum.

And it might not stop there. The price increases for foreign steel can give domestic producers license to raise prices.

"American steel prices are jacking their prices up to meet almost what is happening with foreign tariffs," Britt said.

Britt works for a national corporation that produces prefabricated concrete for construction, and he's seeing the consequences of the tariffs manifested there.

"It's having a tremendous effect on our customers and our projects," he said. "Costs are going up at every stage of the game."

In short, he is worried that the benefits of taking action to protect one industry will have a net loss for U.S. producers and their county economies, particularly if they participate in international trade.

"I am greatly concerned about the jobs and opportunities," he said. "You got to look at the reciprocal effect on the industries that are here."

Reciprocal effects could be felt in commodities markets if other counties impose their own tariffs on U.S. exports.

In Cherokee County, Iowa, the productivity of agricultural land directly affects its valuation, but Supervisor Dennis Bush said the county board is not panicking about drops in demand for corn or soybeans resulting from a retaliatory tariff.

"It's something we keep on the backburner, it's pretty early in the game," he said. "They threatened tariffs but there's nothing set in stone yet."

"But any drop in the price of either corn or soybeans affects the valuations of the land in subsequent years, so it would directly affect county government in that we wouldn't have the same tax base."

"We're just riding this out and watching it unfold."

NATIONAL ASSOCIATION OF COUNTIES

By CHARLIE BAN

Apr. 27, 2018

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## **[New BUILD Program Replaces TIGER Grants.](#)**

### **BUILD program will replace DOT's TIGER grants, has a July 19 application deadline**

The Department of Transportation (DOT) announced April 20 the release of a new transportation infrastructure grant program that will replace the current TIGER Grant program. The Better Utilizing Investments to Leverage Development (BUILD) program will disburse \$1.5 billion for surface transportation infrastructure projects with significant local or regional impacts, including funding for roads, bridges, transit, rail or port support.

As with TIGER grants, county governments may apply directly or jointly with other local or state entities, with an application deadline of July 19.

DOT will evaluate BUILD applications on the following criteria: safety, economic competitiveness, quality of life, environmental protection, state of good repair, innovation, partnerships and additional non-federal revenue for infrastructure investments.

[Continue reading.](#)

NATIONAL ASSOCIATION OF COUNTIES

Apr. 27, 2018

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## **BDA Submits Written Comments in Support of Reinstating Municipal Advance Refundings and Expanding PABs.**

On May 7, 2018, the BDA submitted written comments to the Senate Finance Committee in support of fully reinstating tax-exempt advance refundings, including qualified 501c (3) bonds and expanding the use of private activity bonds (PABs). The comments can be viewed [here](#).

The comments were submitted in response to a hearing titled, “Early Impressions of the New Tax Law”. While municipal advance refundings and PABs were not discussed, project data shared by BDA member firms provides the Committee with an opportunity to see the importance of these financing tools.

The BDA plans to continue lobbying on Capitol Hill in support of reinstating advanced refundings and expanding the use of PABs.

### **Bond Dealers of America**

May 7, 2018

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## **Answers to 3 Key Questions About the Remediation of Superfund and Brownfield Sites Under President Trump’s Infrastructure Proposal.**

In addition to addressing the repair of roads and bridges, President Trump’s infrastructure proposal addresses a decidedly less popular infrastructure element — Superfund Sites and Brownfield Sites. It is worth looking at how President Trump’s proposed changes to Brownfield and Superfund revitalization may impact future infrastructure proposals. Additionally, with the House of Representatives passing the Brownfields Enhancement, Economic Redevelopment, and Reauthorization Act of 2017 late last year, President Trump’s infrastructure proposal could impact land revitalization before anything else.

**What are the key questions municipalities and companies should be thinking about as they examine the President’s proposed changes to Brownfield and Superfund reform? Here are the top three.**

### **What are the biggest changes to current Brownfield and Superfund cleanup funding proposed by President Trump’s Infrastructure Plan?**

The overall goal with the President’s Infrastructure Plan as it relates to Brownfield and Superfund Sites is to incentivize contaminated property redevelopment and find ways to mitigate legal and financial risks for those seeking to do so.

Currently, the Environmental Protection Agency (“EPA”) Brownfields Program has a revolving loan/grant fund that can be used for the cleanup of a variety of projects. But under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Sites are not eligible to receive funds for the program, and National Priorities List (NPL) Sites are not eligible for Brownfield grants. President Trump’s plan would change that by expanding the types of projects eligible for the EPA Brownfields Program grant funding and allowing Superfund Sites to access that money. The plan would also amend the law to allow NPL Sites or portions of them to be eligible for Brownfield grants.

In addition to proposed eligibility changes, part of President Trump's proposal includes the establishment of an Incentives Program, which would receive up to \$100 billion to fund a number of different projects, including Brownfield and Superfund Sites. More funding for Superfund and Brownfield Sites would also come from changes to the Water Infrastructure Finance and Innovation Act (WIFIA) lending program and from \$10 billion of the EPA's portion of the Rural Infrastructure Program, which would provide grants for cleaning up Brownfield Sites.

While it remains to be seen how exactly each of those funds would be divided up to support remediation efforts, Superfund and Brownfield Sites should at least, in theory, have greater access to those types of funds than they did before.

### **Will the Infrastructure Proposal's liability relief make Superfund Site cleanups more likely?**

Perhaps the most interesting — and likely the most challenging to navigate — aspect of President Trump's proposed changes to Superfund Site cleanups is the additional liability relief it gives to states and municipalities that acquire contaminated property. Currently, states and local governments may be exempt from CERCLA liability as an "owner or operator" if they acquire ownership or control of contaminated property involuntarily through bankruptcy, tax delinquency, abandonment, or other circumstances under which the state or local government involuntarily acquires the property. But there exists much confusion about what exactly qualifies as "involuntary acquisition" or who would be free of liability if the property fell into government hands.

President Trump's plan would clarify and expand CERCLA liability relief and make public entities eligible for grants as long as they did not contribute to the contamination and as long as they meet the obligations imposed on bona fide prospective purchasers (BFPPs) as described in CERCLA.

However, eliminating liability entirely could be a tricky move, especially when the state/municipality plans to sell or transfer ownership of a formerly contaminated site. There may not be enough protections in the proposal as it stands to make purchasing these properties attractive enough for private businesses or investors given third party liability concerns. The full extent to which these liability protections will extend is not yet clear.

### **How will the Infrastructure Plan's proposed expanded EPA authority impact the cleanup and reuse of Superfund Sites?**

Under existing law, CERCLA provides only the President with the authority to enter into an administrative settlement agreement with any person to perform a response action. Additionally, it requires that when the EPA enters into a settlement for a remedial action with a potentially responsible party, the settlement must be approved by the Department of Justice and entered into the United States District Court as a consent decree.

Along with expediting the permitting process on infrastructure projects overall, President Trump's proposal would amend the law to give the EPA express authority to enter into administrative settlement agreements with BFPPs or other third parties who wish to remediate and reuse Superfund Sites, including partial and early remedial actions. In theory, this would expand the ability to cleanup and reuse Superfund Sites and eliminate delays due to negotiations in court.

**For the time being, municipalities and companies will want to actively monitor the development of Brownfield and Superfund Site reform proposals. Further, as the Senate considers the House's version of the Brownfields Enhancement, Economic Redevelopment, and Reauthorization Act of 2017, it is worth keeping a close eye on how the President's proposal with regard to Superfund and Brownfields Sites will impact any final legislation.**

May 10, 2018

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## **[How Impact Bonds Can Save Taxpayer Dollars: Neighborly](#)**

The Massachusetts Bay Transportation Authority (MBTA), known to its Boston ridership as “the T”, has a history of innovation. As North America’s oldest mass transit system, it was home to the first subway tunnels and underground streetcars. The T formalized the first transit art program and was the first transit agency to offer mobile ticketing. In October 2017, we brought the spirit of innovation to public finance. Our team issued the first ever tax-exempt sustainability bonds, and perhaps more noteworthy, tested the hypothesis that issuing impact-focused as opposed to traditional bonds results in lower borrowing costs.

Sustainability bonds exclusively finance green and social projects. At the MBTA, we identified 74 projects within our [2018-2022 Capital Investment Plan](#) that fit the strict definition of sustainability. These projects make our system more resilient to climate change, more energy efficient and more accessible. They reduce pollution, enhance safety and improve workplace conditions.

To finance the remaining projects, we issued traditional tax-exempt bonds. This created the opportunity to directly compare sustainability and traditional bonds. The two types of bonds were nearly identical: they had the same rating and average life, and both are large maturity size. Through a competitive pricing process, we were able to A/B test our hypothesis that impact-focused issuance translates to a lower cost of capital. These were the results:

1. More banks participated in the sustainability bond offering than the traditional bond offering
2. The banks that participated in both offerings submitted more aggressive bids on the sustainability bonds than the traditional bonds
3. The T’s borrowing cost ended up being lower for its sustainability bonds than its traditional bonds

This is just a single data point, but as with our subway tunnels and mobile ticketing, we hope our sustainability bonds will be the first of many. We believe that being aware of our environmental and social footprint is critical to the long-term success of our organization. We also believe that the new breed of impact-seeking investors who supported our sustainability issuance will continue to do so in the future.

### **Neighborly**

Posted 05/09/2018 by Paul Brandley

### **Important Disclosure Information**

*[Neighborly](#) is providing this for informational purposes only. The information contained herein is believed to be reliable, but cannot guarantee its accuracy, nor can we guarantee past results will not be indicative of future results. Please consult your financial adviser before investing, as investing involves risk, including loss of principal. [Neighborly Securities, Inc.](#) is a member of FINRA and SIPC, and registered with the MSRB.*

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## **Can People Afford American Infrastructure?**

While the first request most people make of their local infrastructure is one of physical reach—the idea that power lines, roads, broadband, and water pipes all connect to one’s home—the next question is usually one of price.

If infrastructure is to function as a shared platform to promote economic prosperity, the price for these services should be readily affordable. In this case, that means every household can pay their water, energy, transportation, telephone, and internet bills—and still leave money left over to purchase other essential items like housing, food, clothing, and healthcare. In a country as wealthy as the United States, access to infrastructure is a necessity that should be available to everyone. Unfortunately, that’s far from the case.

[Accessing American infrastructure](#) is a relatively expensive proposition, creating financial barriers to economic opportunity for many people throughout the country.

[Continue reading.](#)

### **The Brookings Institute**

by Adie Tomer  
Fellow – Metropolitan Policy Program

May 9, 2018

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## **Fitch: Risk-Sharing Imperative for Light Rail Projects.**

Fitch Ratings-New York-09 May 2018: Traffic congestion, lack of parking and numerous other factors are making what was considered by some to be an outmoded form of transportation desirable again for investors, according to Fitch Ratings in a new report.

Light rail transit systems are being installed again in major cities throughout the world. There are about a half-dozen new light rail projects under consideration by U.S. state and local governments. Meanwhile, light rail projects are proliferating more quickly in Canada with nearly a dozen new projects in various stages of procurement. Various light rail public-private partnerships (PPPs) are also underway in Europe, though most of those are for renovation and updating of existing light rails.

As with other forms of infrastructure, light rail PPPs come with varying degrees of risk as a project makes its way to completion. This is why risk sharing between the public and private sector is key in order for a light rail project to be completed on time and to perform well once it is operational according to Senior Director Scott Zuchorski.

‘Transferring vehicle delivery to a proven private counterparty may be prudent, though risk allocated to the private sector comes with an inherent premium cost that must be factored-in,’ said Zuchorski. ‘Structural flexibility for delays from a timing and liquidity perspective is an important consideration when significant risk is allocated to the private sector.’

In the case of light rail projects, the following factors need to be carefully assessed to ensure that

the private sector is holding risks it can manage:

- Right of way;
- Geo-technical;
- Interface with third parties;
- Ridership levels; and
- Energy usage.

Issues such as these are inherent in Maryland's Purple Line project and will need to be taken into account for the upcoming LAX Automated People Mover.

'Assessing Risk in Light Rail PPPs' is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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## **Taking on Walmart Is No Easy Fight for Cities.**

***Some towns have tried to force certain big-box retailers to pay higher wages.***

Desert Hot Springs, Calif., is a bedroom community of 28,000 people, 110 miles east of Los Angeles. It's best known for its natural hot springs and spas, which bring in about \$1 million in revenue each year. Otherwise, the city lacks jobs, especially ones that pay much above the minimum wage. Most residents commute out of town to work at nearby casinos, restaurants, hotels, retail stores and hospitals.

Councilman Russell Betts keeps track of the town's economic health through informal barometers. When times are good, the roads are crowded. For quite a while, he says, "there wasn't a traffic jam. People were just sitting at home, having a real hard time, not making money."

For years, officials in Desert Hot Springs have looked for ways to increase the city's median income — about \$34,000 for a three-person household in 2016, roughly \$20,000 less than the national average. They have pursued better-paying jobs not only to reduce poverty, but also to revive spending at local businesses around town. About four years ago, Betts and fellow Councilman Joe McKee proposed a solution: Walmart had bought a parcel of land and planned to open a store in town. Why not require it and other big-box retailers to pay workers a “good wage”? At the time, the minimum wage in California was \$9. Betts and McKee introduced a bill that would inch up the lowest hourly wage at big-box retailers incrementally until it reached \$12.20. After that, pay would be tied to the consumer price index and would rise automatically with inflation.

[Continue reading.](#)

GOVERNING.COM

BY J.B. WOGAN | MAY 2018

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## **Laddered Muni Portfolios: A Potential Way to Hedge Interest Rate Risk.**

The current rising interest rate environment, where the Federal Reserve has hinted toward multiple rate hikes per year in upcoming years, has fostered an environment of inflation growth. With an expected decline in purchasing power, fixed income investors are increasingly concerned about the negative impacts of rising rates on their existing, especially long-term, fixed income holdings.

Generally, investors are familiar with the inverse correlation between interest rates and bond values; however, investors with longer maturities are more vulnerable to the current interest rate environment and the forecast of steeper hikes in 2019 and 2020. The rate hikes and rise in inflation are indicative of growth and strengthening of the U.S. economy. Along the same lines, data from the U.S. Commerce Department indicate that the U.S. international trade gap has widened to \$57.6 billion in February 2018, the largest since 2008, meaning that U.S. exports are growing, but imports are growing even more.

In this article, we will take a closer look at the current interest rate situation and how a laddered municipal debt portfolio can alleviate or help combat the risk of rate hikes on the values of your fixed income instruments.

Check out [this article](#) to determine whether muni bond ladders are right for you.

**municipalbonds.com**

by Jayden Sangha

May 10, 2018

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## **Tension Bubbles Up Over Water Infrastructure Bill in Senate.**

***The prospect of making changes to federally-backed drinking water and sewer lending programs is proving to be controversial.***



WASHINGTON — The waterworks financing legislation might be known as the “SRF WIN Act” for short, but a trio of groups in the water and wastewater sector are calling it a loser.

The American Water Works Association, the Association of Metropolitan Water Agencies and the Water Environment Federation came out swinging Thursday against the Securing Required Funding for Water Infrastructure Now Act, a bill that would blend elements of two federally-backed water and wastewater lending programs.

A day earlier, Sen. John Barrasso, the Wyoming Republican who chairs the Environment and Public Works Committee, left open the possibility that the bill could be included in a broader package of water infrastructure legislation that the committee hopes to pass this year.

[Continue reading.](#)

ROUTE FIFTY

By Bill Lucia,

MAY 10, 2018

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## **With Self-Driving Cars on Horizon, Cities Worry About Parking.**

Fleets of shared, on-demand, self-driving cars could be the death knell for parking fees, and that’s forcing cities, airports, and the municipal bond industry to devise new ways to extract revenue before it’s too late.

The future of transportation in metropolitan areas won’t be in individually owned cars, but rather in fleet-based, electric, and autonomous ones, planners and financial analysts told Bloomberg Government. It’s a trend with broad city-planning implications, from designing parking garages to tracking traffic patterns at airports.

Credit-rating agencies like Moody’s Corp. and S&P Global Inc. are closely watching how bond issuers forecast the consequences of falling income due to self-driving technology produced by Alphabet Inc.’s Waymo, Tesla Inc., Toyota Motor Corp. and others.

“There is going to be disruption,” Kurt Forsgren, U.S. public finance sector leader for S&P Global, told Bloomberg Government. “The question is, ‘At what rate?’”

[Continue reading.](#)

## **Bloomberg Government**

Shaun Courtney

April 26, 2018

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## **Brokers Polish Resumes as New Muni-Bond Rules Threaten Business.**

- **Fee disclosures may curb trading by individual investors**
- **'They're expecting their flows to go way down,' firm CEO says**

Employees from banks and securities dealers have flooded investment firm Gurtin Municipal Bond Management with resumes, anticipating that new rules requiring them to disclose what they charge customers on trades of state and local government debt will shake up the industry.

The job hunting reflects anxiety that individual investors, the market's biggest customers, will revolt by shifting their money into mutual funds and other fee-based accounts, said Bill Gurtin, the chief executive officer of the Solana Beach, California-based company, which oversees \$14 billion. His firm is one that stands to gain.

"They're expecting their flows to go way down on the retail side," Gurtin said in an interview.

Starting May 14, brokerages must begin reporting some of the fees they charge on municipal bond trades, which are currently hidden because they're embedded in the price brokers quote when they buy and sell bonds for their customers. Many investors probably don't know what they're paying, but it can be significant: They averaged about 1.1 percent on investment-grade bonds in 2016, or \$1,100 for a \$100,000 bond, according to S&P Global

Analysts are speculating that the revelation could accelerate a shift toward managed accounts by individuals who directly own about \$1.6 trillion, or 40 percent, of the outstanding municipal securities. That's because the fees funds charge will look cheap compared with what it costs for individuals to trade on their own. They also provide diversification and services like credit research.

The shift toward professionally managed accounts is already well underway, in part because the record-setting bankruptcies of Detroit and Puerto Rico heightened investors' awareness of the risks associated with individual bonds. The amount of state and local debt held by mutual funds has nearly doubled since the end of 2008 and individual ownership has dropped, according to Federal Reserve Board figures.

The further decline in trading by individuals may lead dealers to reduce their already lean municipal-bond inventories and cut jobs dedicated to such trading, including strategist and analyst positions, Gurtin said. As bank inventories decline, it will be harder for them to serve clients because they don't have access to a wide network of bonds.

"It's going to make their job more difficult," Gurtin said.

He declined to name the firms currently employing the job seekers.

The greatest impact may be felt at small, regional brokerages that execute "odd lot" trades of less than \$1 million, said Andrew Clinton, founder of Stamford, Connecticut-based Clinton Investment Management, which oversees \$520 million of municipal bonds. Smaller trades make up the bulk of the market's daily volume.

The new disclosures are "absolutely going to hurt the retail desk at every shop from the biggest to the smallest," Clinton said. "If each time you do a transaction as an individual it costs you two points, you're probably less likely to do a transaction."

## **Bloomberg Markets**

By Martin Z Braun

## **Money On A Mission: Are Green Bonds Right For You?**

The financial services industry is constantly developing new products to serve the ever-changing wants and needs of a diverse array of investors. While Wall Street financial innovation can lead to problems (e.g., the exotic mortgage debt instruments that helped fuel the 2008 financial crisis), investment banks occasionally launch new products worthy of investors' attention. I think green bonds are an interesting product that is worth considering for many investors.

Green bonds, like traditional bonds, are fixed income instruments that are used by governments, companies, and NGOs to raise capital through the debt markets. Their structure is not fundamentally different from the corporate bonds, government bonds, and municipal bonds with which many investors are familiar.

However, green bonds differ from traditional bonds in that the issuers of green bonds publicly state that the capital raised through the issue will fund projects, assets, or business activities with an environmental benefit. These activities might include renewable energy, sustainable forestry, or energy-efficiency projects, to name a few examples. Also, capital might be used to fund projects with social or community benefits, such as improving social services or increasing accessibility to healthcare.

In order to provide transparency to bondholders, green bond issuers typically provide periodic reporting on the use of funds and project success, though such reporting is not currently a requirement.

While green bonds are a relatively new phenomenon (the first green bond was issued in 2007 by the European Investment Bank), the global green bond market has grown from \$810 million of new issues in 2007 to \$155 billion worth of new issues in 2017. With new issuers and investors continuing to enter the market, the total value of green bonds outstanding was estimated to be as high as \$335 billion worldwide as of the end of 2017.

While there is currently no standardized set of criteria for what qualifies a bond as "green," I expect this to change as the market develops. Several international organizations have developed guidelines that issuers are encouraged to follow in order to be able to label their bonds as "green." I expect that a single international green bond standard will emerge in the near future, which should only add to the credibility and size of the green bond market.

As an example, Apple (AAPL) entered the green bond market in 2016, issuing \$1.5 billion in bonds, with the proceeds used to finance renewable energy, energy storage and energy efficiency projects, green buildings, and resource conservation efforts. Apple is undertaking these projects in order to reduce the company's carbon footprint and the carbon footprint of its supply chain. In issuing these bonds, Apple developed a green bond framework which was reviewed by a third party consultancy, while Ernst & Young was hired to conduct an annual audit to determine how the bond proceeds were used.

The increasing popularity of green bonds has coincided with the rapid development of the broader sustainable investing space, which now comprises nearly \$23 trillion in assets globally. The dramatic growth of sustainable investing (which encompasses ESG, impact, and socially responsible investing), is indicative of an important and accelerating trend in investor interest regarding the way

in which firms are impacting and interacting with the environment and society as a whole.

While some might argue that this focus on corporate sustainability and responsibility does little more than make investors feel good, I would argue that it can reduce investment risk over the long term, and the research seems to agree with me. I believe it is important for investors to own investments which align with their personal values, but it is this potential for portfolio risk reduction that makes green bonds, along with other environmentally and socially conscious investments, especially interesting.

Given the multitude of risks that investors face nowadays, it can make sense to seek out investments in firms and projects which not only seek to minimize environmental, social, and governance risks but also actively pursue opportunities to make a positive impact in these areas. I believe green bonds represent such an opportunity, and I expect this to lead to continued growth of the space in the years ahead.

## **Nasdaq**

April 23, 2018, 10:47:54 AM EDT By Matthew Blume, CFA

*The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of Nasdaq, Inc.*

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## **[Financing The Future of Energy and Transportation in Cities.](#)**

Kristine Babick knows precisely how much work Washington, D.C. has to do to reduce greenhouse gas emissions. It's her job to know, as an analyst with D.C.'s [soon-to-launch green bank](#).

"Seventy-five percent of our carbon emissions are from our built environment," Babick says of D.C. "This is currently close to double what other cities and jurisdictions have as their [built environment's share of] carbon emissions and sources of greenhouse gas."

D.C.'s is the latest on a list of green bank initiatives that are working to harness public and private dollars to transform energy and transportation systems. The city's mayor, Muriel Bowser, has pledged to make the U.S. capital carbon neutral by 2050.

"The amount of money that would be required to achieve a lot of those [climate] goals would be beyond the public capacity," Babick says, explaining why the District decided to launch a green investment bank. "There was a recognition that we needed to catalyze private sector investment in order to achieve a lot of these goals."

[Continue reading.](#)

NEXT CITY

BY ZOE SULLIVAN | APRIL 24, 2018

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## **[Infrastructure is Key to Economic Growth.](#)**

Lately, Americans are barraged with news stories about exciting developments in transportation technology or personal mobility that match our on-demand, life-at-our-fingertips society. Smart cities that monitor vehicle traffic congestion, or driverless cars and trucks that will convey people and goods to their destination on time — these are very compelling.

Yet these stories are missing a major fact: the underlying infrastructure needed to make such advancements in modernization possible is not getting congressional support needed to connect rubber and road, so to speak.

Senior representatives from the nation's cement and concrete companies — the North American Concrete Alliance — are here this week to help make the connection for Congress: you won't have strong, safe and long-lasting transportation networks and cities without taking action on infrastructure.

NACA comprises 12 cement- and concrete-related organizations that collectively represent 600,000 employees and contribute \$100 billion annually to the U.S. economy.

America's cement and concrete industry are joining forces to urge Congress to take action on several fronts. We will be pressing lawmakers to act now — not next year, not in another Congress. How can a below-average national highway system, for example, rise to meet the vision for even greater transportation networks of tomorrow?

The cement and concrete industry is asking Congress to consider several key elements as part of any legislative approach that addresses infrastructure renewal.

The first is funding. Congress should pass a long-term, robust and sustainable funding mechanism that addresses Highway Trust Fund shortfalls, and allows for much-needed increases in highways and mass-transportation investments. Currently, lawmakers pay for highway upkeep through the fund, which is chronically under-resourced. All funding mechanisms should be on the table, including a fuel tax increase, a freight charge, a vehicle-miles-traveled tax and sales tax. Financing mechanisms, such as preserving the tax-exempt status of municipal bonds and lifting the cap on private activity bonds, should also be considered.

The second priority shifts from how you fund infrastructure to how you spend those funds. Our industry is seeking renewed competition for infrastructure projects to promote the best use of limited taxpayer dollars. To accomplish this, Congress should require the use of life-cycle cost analysis (LCCA) for infrastructure projects using federal taxpayer dollars. LCCA levels the playing field among project construction materials and enables competition in the marketplace. It is a long-proven, and widely supported process that helps planners, engineers and policy makers understand the full cost of a project over its lifetime, which results in greater accuracy, better performance and lower costs.

According to an analysis by economists from my organization, the Portland Cement Association, by leveraging LCCA on federally funded infrastructure, Congress can save \$91 million for every \$1 billion spent on infrastructure, or 9.1 percent. That means taxpayers would have saved \$2.6 billion if Congress had included an LCCA provision in the FAST Act passed in 2015. If LCCA is incorporated in the Trump Administration's proposed infrastructure package, American taxpayers could see savings of as much as \$90 billion.

Third, Congress should pass long-term Federal Aviation Administration (FAA) reauthorization legislation that increases funding for aviation infrastructure and critical agency operations. FAA reauthorization should provide robust funding for local agencies to use in improving safety, security

and both runway and terminal capacity.

Lastly, Congress should require the reauthorization of the Water Resources Development Act every two years and promote the use of resilient, durable and sustainable materials that protect health, life and property and facilitate commerce. By requiring sustainable materials and resilient construction techniques, water infrastructure will provide the best return on taxpayer investment, while using the latest technology and minimizing risk to life and property.

President Trump has reiterated his call for major infrastructure investment. Americans want strong, safe and smart transportation networks to make their lives, and the lives of future generations, better and more modern. Congress must act soon to pass an infrastructure package. U.S. cement and concrete producers are standing by.

THE HILL

BY MICHAEL IRELAND, OPINION CONTRIBUTOR — 04/23/18

*Michael Ireland is president and CEO of the Portland Cement Association, which represents U.S. cement manufacturers*

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

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## **Municipal Bond ETFs: Liquidity Impact on the Municipal Bond Market.**

The Chief Economist of the MSRB examines municipal bond exchange-traded funds' relationship to municipal bond market liquidity.

[Read the analysis.](#)

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## **Muni Bonds Drop Most Since February in Slow Reaction to Selloff.**

- **Decline comes a day after Treasury yields breached milestone**
- **30-year municipal yields rise to highest since March 2017**

The municipal-bond market, a haven for buy and hold investors, isn't known for swift reaction times. And the delayed response to the Treasury market downturn this week is no exception.

State and local debt prices posted their biggest drop in more than two months on Wednesday, a day after Treasuries yields reached 3 percent, a milestone that traders have been eyeing for months.

Yields on top-rated municipal bonds climbed across the curve, with those on 30-year debt rising five basis points to almost 3.17 percent, the biggest one-day increase since February 2 and the highest since March 2017, according to Bloomberg indexes. That comes after investors pulled \$766 million out of municipal-bond mutual funds in the week ended April 18, marking the third straight week that funds have seen investors retreat, according to the Investment Company Institute.

Municipal bonds have posted a 1.4 percent loss this year amid concerns the Federal Reserve will

raise interest rates at a faster-than-expected pace. R.J. Gallo, senior portfolio manager for Federated Investors, said the securities are tracking broader weakness in the bond market.

"All year long, every major fixed-income asset class is posting negative total returns -munis as well," he said.

## **Bloomberg**

By Amanda Albright

April 25, 2018, 10:09 AM PDT

— *With assistance by Taylor Riggs*

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### **Mutual Funds Stand to Gain as Muni Buyers Get First Look at Fees.**

- **Markups on some trades will be disclosed starting May 14**
- **Trading costs can consume several months of investment returns**

On May 14, the municipal-bond market's biggest investors may be in for a shock.

That's when new rules will require brokerage firms to start disclosing some of the fees they charge individuals to buy and sell state and local government debt. Those fees, which firms build into the trades by marking the price up or down, can be substantial: They averaged about 1.1 percent on investment-grade bonds in 2016, or \$1,100 for a \$100,000 bond, according to S&P Global. With 10-year AAA bonds yielding 2.5 percent, those transaction costs can eat up several months of a returns.

The revelation could accelerate a shift toward mutual funds and other fee-based accounts by individual investors who own about \$1.6 trillion, or 40 percent, of the outstanding municipal securities, more than any other group. That's because the fees they charge will look cheap compared with what it costs for individuals to trade on their own.

"Why pay a point to buy bonds when you can pay a few basis points a year to a mutual-fund provider and you get diversification and you don't have to worry about a singular credit risk that comes with munis," said Matt Fabian, a managing director at Municipal Market Analytics.

The new regulation from the Municipal Securities Rulemaking Board is the result of a push to inject more transparency into the state and local market, a haven for individuals seeking a safe source of tax-exempt income.

It comes as the shift toward professionally managed accounts has already gained steam as the record setting bankruptcies of Jefferson County, Alabama, Detroit and Puerto Rico heightened investors awareness of the risks associated with individual bonds. Mutual-fund holdings of state and local debt has nearly doubled since the end of 2008, during the height of the credit-market crisis, according to Federal Reserve Board figures.

But the impact of the fee disclosures may be limited in part by loopholes that regulators left in the new rules. Disclosure of mark ups to retail investors — both as a dollar amount and as a percentage of the prevailing market price — are required only when the dealer trades the same security that day. Moreover, the size of the dealer's trading must equal or exceed the size of the customer's transaction.

If a dealer had a bond in inventory and then sells it to a customer, that markup won't be disclosed. Nor will it be when a customer buys bonds issued on the first day of an initial offering.

Still, the requirements will affect a sizable number of trades. The MSRB, which writes regulations for the market, said it may affect more than 8,000 retail transactions each day.

The exceptions may bring some initial confusion, as markups are disclosed on some trades but not others. Brokers will need to spend time explaining the discrepancy and how the markups are calculated, said Patrick Luby, an analyst who follows the municipal securities industry for CreditSights Inc. And determining the market price used to gauge the markups can be complicated depending on when the trades occur.

"Asking them to take more time to explain a municipal bond trade isn't a welcome proposition, because they're already stretched pretty thin," said Luby. Time pressures on brokers may also lead them to pitch clients fee-based accounts, he said.

Municipal-bond fund managers have welcomed the rule, anticipating that new clients may emerge when they see how costly it can be to build a portfolio of sequentially maturing bonds — a practice known as laddering — on their own.

"The perception up to this point is that laddering a municipal portfolio is 'cheaper' than hiring an active manager," said Andrew Clinton, founder of Stamford, Connecticut-based Clinton Investment Management, which oversees \$430 million of municipal bonds. "The clients never saw the actual transaction costs and assumed, inappropriately, that they were getting that service for free."

Gurtin Municipal Bond Management charges 0.14 percentage point to ladder a portfolio, depending on the strategy, said chief executive officer, Bill Gurtin. His firm oversees \$14 billion municipal assets.

"Not only are you getting proper execution and proper value, you're also getting ongoing surveillance," transparency of fees and returns, and a manager that, unlike a broker, is legally required to act in a client's best interest, said Gurtin.

"It's hard to argue that the resources behind a professional manager aren't substantially greater than behind a broker buying bonds on behalf of a client," he said.

## **Bloomberg Markets**

By Martin Z Braun

April 23, 2018, 8:41 AM PDT

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### **[Tobacco Refundings Erode High-Yield Muni Debt, Squeeze Investors.](#)**

NEW YORK (Reuters) – A series of big tobacco bond refundings is reshaping the U.S. municipal junk bond market, taking what has been a high-yielding staple and slowly turning it investment grade.

The change means that investors are increasingly struggling to find the same high yields in comparable securities, a problem compounded by even more investors flowing into the asset class.

"One of the largest sectors in the high-yield universe is shrinking," said William Black, senior



portfolio manager at City National Rochdale in Chicago.

The specialized bonds stem from a 1998 settlement with cigarette makers, which agreed to make annual payments to U.S. states to cover medical costs of sick smokers.

Over the intervening years, at least 21 states and territories, and separately some cities, securitized that stream of money by selling municipal bonds backed by the expected payments.

Since the start of 2016, states and cities have refunded more than \$6.2 billion of their old tobacco bonds, according to Thomson Reuters data. Some of the deals are transforming junk-rated debt into investment-grade assets and squeezing high-yield investors.

When that money is returned to investors in a tobacco refunding, it is harder for them to find similar places to put it back to work.

“Mutual funds, along with the ETFs... are looking at the likelihood of seeing cash backing into the portfolio when these bonds are called away and not having a lot of choices for replacement,” said James Colby, who manages muni ETFs for VanEck.

In Colby’s custom high-yield reference index, the weight for tobacco is 15.25 percent, down from 20.70 in January 2016. The shrinkage is a direct result of tobacco refundings, he said.

Tobacco bonds comprised 15.5 percent of the S&P Municipal Bond High Yield Index at start of 2016 but have now fallen to 14.4 percent, a 7 percent decline.

Compounding the crunch is strong demand for high yield muni funds, with investors pouring money in for eight straight weeks and causing more people to chase after fewer tobacco bonds.

Flows into high-yield muni bond funds have been positive every year since 2014, with \$7.5 billion of inflows last year alone, according to data from Lipper, a Thomson Reuters unit.

Those investors are likely chasing yield. The S&P Municipal Bond Tobacco Index returned 8.40 percent over the past year, compared with just 3.17 percent for the broader high yield index and 1.64 percent for the overall AMT-free national muni bond index.

For a factbox of refunding deals, click here:

## PHOENIX FROM THE ASHES

In 2007, issuers sold \$16.9 billion of tobacco bonds altogether, the biggest year of issuance on record, according to Thomson Reuters data.

Most bonds are callable after a decade, so some of these deals are coming back for reworking since last year’s 10-year anniversary.

Another \$10.4 billion was issued in 2005 and 2006, adding to the pile of tobacco debt now being refunded.

For an interactive graphic of tobacco bond issuance, click here: [tmsnrt.rs/2I3Joph](https://tmsnrt.rs/2I3Joph)

The same firm – Jefferies LLC – has underwritten every tobacco deal since 2016. Jefferies declined to comment.

Over the years, many tobacco bonds have been downgraded as more smokers than anticipated quit.

That is because revenues to the states from the 1998 settlement are based on the volume of cigarettes shipped.

But now, the ratings are moving back up as old bonds get reworked.

The high ratings have mostly been driven by new cash flow structures and, in some cases, higher payments from the tobacco companies after the resolution of legal disputes, S&P structured finance analyst Christine Dalton told Reuters.

New Jersey refunded \$3.15 billion of tobacco bonds in April, exchanging speculative 'B' rated debt for investment-grade bonds. The deal will generate \$162 million in present value savings for the state, said New Jersey Treasury spokeswoman Jennifer Sciortino.

The state could use the cash. The second-lowest-rated U.S. state, New Jersey needs nearly \$1.6 billion of tax hikes to cover its spending needs next fiscal year, Governor Phil Murphy has said.

States can benefit from using one-time revenues – like from a refunding – for one-time expenses.

“If there’s money on the ground, you can’t blame someone for bending over to pick it up,” said S&P public finance analyst David Hitchcock.

by Hilary Russ

MAY 2, 2018

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## **[Energy Northwest Tops U.S. Muni Bond Sales Next Week.](#)**

NEW YORK, May 4 (Reuters) – Energy Northwest in Washington State will price \$635 million of electric revenue refunding bonds on May 9, the largest deal in next week’s estimated \$7.2 billion of U.S. municipal bond and note sales.

The deal includes \$230.7 million of tax-exempt bonds for the agency’s Columbia Generating Station and \$400 million for “Project 3” and about \$5 million of taxable bonds.

The bonds are supported by net billing agreements with the Bonneville Power Administration (BPA), a regional power marketing agency within the federal energy department.

BPA is facing headwinds in the wholesale power market, where prices have been depressed in recent years by low natural gas prices as energy firms pull record amounts of the fuel from shale formations.

From 2013 to 2017, average prices at the Mid Columbia hub near the Oregon-Washington border have averaged \$30.27 per MWh, compared to \$44.33 over the prior 10 years.

Those headwinds, as well as implementation of policies that favor customers, have led to “an erosion of financial strength that weakens BPA’s position in its rating,” Moody’s Investors Service said on Tuesday when it rated the deal Aa1.

BPA’s recent strategic plan laid out objectives that could help its credit rating, including a goal of reducing its debt ratio and maintaining a \$1.5 billion line of credit from the U.S. Treasury.

But the goals may not be enough to stop its credit deterioration if they fail to “translate into robust actions,” Moody’s said.

“The extent of any credit benefits of BPA’s new strategic goals should become evident by the end of this year when BPA files its initial proposal for the FY2020-2021 rate case,” Moody’s said.

Under a regional cooperation debt agreement implemented in 2014, Energy Northwest issues refunding bonds to extend the maturities of outstanding debt so that it more closely matches the lifespan of the facilities it finances, according to an investor presentation.

Energy Northwest, a Washington State joint operating agency, owns and operates the Columbia Generating Station, the only commercial nuclear energy facility in the region.

Project 3 is a nuclear electric generating facility in Satsop that was never fully built, shuttered in 1994, and later transferred to a coalition of local governments for remediation and economic development. Energy Northwest pays to maintain the site.

The deal is led by senior manager JPMorgan.

Reporting by Hilary Russ Additional reporting by Scott DiSavino; Editing by Richard Chang

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### **Fitch: U.S. Pension Contributions Trending Higher but Pace Slowing.**

Fitch Ratings-New York-01 May 2018: Actuarial pension contributions of state and local governments are and will continue to grow over time, though the pace has slowed following the rapid increases that took place immediately after the Great Recession, according to a new report by Fitch Ratings.

Following a high water mark of 8.6% in fiscal 2011, the median actuarially determined contribution (ADC) rose only 3.5% last year. Actual contributions rose marginally quicker (3.7%), as governments continue to pay a larger share of what actuaries target for supporting pension systems. However, pension contribution growth has been far faster than the growth in state and local tax resources. State and local tax resources are about one-third higher than a decade ago, while pension ADCs are 74% higher.

Though the pace has slowed, the contribution burden of pensions is likely to continue rising, according to Senior Director Douglas Offerman. “ADCs must rise further to cover asset performance that over time is unlikely to match the investment return targets that plans set for themselves,” said Offerman. “Slower ADC growth is taking place against a backdrop of longer-term unfavorable factors that will continue to push the carrying costs of pension liabilities higher over time.”

Actual contributions to pensions have risen faster than ADCs as governments have responded to pension funding concerns by paying a higher share of their ADCs. Two-thirds of major pensions are receiving at least the full ADC in fiscal 2017, the highest level in the last decade. Despite this positive trend, the willingness of states and local governments to make full ADC is generally cyclical. Fitch sees this as a negative over time. “The damage done by weak contribution practices is higher today compared to decades past because pension systems are more mature, with less favorable demographic and cash flow profiles,” said Offerman.

‘Slower Growth in Pension Contributions’ is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Muni Bonds Stage Biggest Rally in Six Weeks on Fed Outlook.**

- **Long end leads gains, with 30-year yields down 5 basis points**
- **Gains come after munis cheapened last week against Treasuries**

Municipal bonds rallied Thursday, pushing yields down by the most in six weeks, after the Federal Reserve signaled it will allow inflation to run slightly above its target, a less hawkish tone than some investors expected.

The gains were led by the longest-dated securities, with 30-year yields falling 5 basis points to 3.03 percent by 1 p.m., according to Bloomberg's benchmark indexes. Ten-year yields dropped 4 basis points to 2.47 percent.

The move came after municipal debt yields rose relative to Treasuries last week, making state and local bonds more attractive by comparison. Treasuries also gained after Wednesday's Fed meeting.

"Munis underperformed across the curve and looked cheaper," said Peter Block, managing director at Ramirez & Co., a New York-based brokerage. "Supply is low this week, there's a lot of money on the sidelines and we looked attractive."

### **Bloomberg**

By Danielle Moran

May 3, 2018

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## **The Muni-Market's Terrible, Horrible, No Good, Very Bad Year.**

- **Falling sales squeeze underwriters while investors see losses**
- **'It's a bumpy time when rates are going up,' investor says**

This year is turning out to be one many in the municipal-bond world would rather forget.

Thanks to a federal tax-overhaul that caused a rush to borrow last year and curbed governments' ability to refinance debt, new bond sales have shrunk by 20 percent, cutting deeply into underwriting fees. Trading is down. Demand has dropped from some of the market's major buyers, banks and insurers, because tax rates were lowered. And with interest rates headed higher, the

securities have handed investors a loss of 1.4 percent, marking the worst start to a year since 1996.

“We have been stuck in such a low interest rate environment for so long,” said Ross Maynard, director of client portfolio management at Ascent Investment Partners, which holds about \$500 million of municipal securities. “We always knew the transition period wasn’t going to be comfortable. I think we’re very much in that right now.”

The municipal market isn’t the only one whipsawed by worries about tighter monetary policy, and tax-exempt debt has posted smaller losses than corporate bonds or Treasuries, thanks in part to the drop off in supply. Moreover, higher yields will eventually draw in investors, whose returns have been restrained by a decade of low interest rates.

But for now, that may be little consolation, with investors pulling money out of municipal mutual funds for the past four weeks. Firms including Piper Jaffray Cos., Raymond James Financial Inc. and the Royal Bank of Canada said their investment banking divisions have also been hit by lagging debt sales in the first quarter.

“If rates are going up and good-quality municipals are giving 4 percent or more in tax-free cash flow, over the long term that’s going to be good for people in high tax brackets,” said Jim Pratt-Heaney, chief investment officer at Coastal Bridge Advisors in Westport, Connecticut. “It’s a bumpy time when rates are going up.”

Analysts say the market may be bolstered in the next few months as the amount of money investors receive from maturing debt and interest payments outstrips the supply of new bonds. That augurs well for demand, given that bond payments are frequently reinvested. Over the next month, some \$9.3 billion of municipal debt is set to be sold, far less than the \$19.7 billion bondholders will get from securities that are being paid off, according to data compiled by Bloomberg.

Ascent’s Maynard, like many investors, is buying shorter-dated debt, which is less sensitive to interest-rate changes and is one of the few niches to deliver positive returns. He said it’s a fools errand to try to predict which way the market will shift over the near-term — given that bullish analyst forecasts for January proved off base.

“You might as well be at the craps table,” he said.

## **Bloomberg**

By Amanda Albright

May 2, 2018, 10:29 AM PDT

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### **[S&P Global Toll Road 2018 Sector Outlook: Increasing Traffic Growth Will Largely Support Credit Stability.](#)**

S&P Global Ratings’ 2018 outlook for business conditions and credit quality for rated toll road facilities across Canada, Europe, Latin America, and Asia-Pacific is stable. The exception is the U.S., where the toll sector outlook is positive.

[Continue Reading](#)

Apr. 30, 2018

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## **S&P Credit Conditions: U.S. State And Local Government Are Experiencing An Upswing, But New Risks Could Threaten The Momentum.**

With economic growth accelerating, credit conditions across the U.S. state and local government sector continue to firm. The current expansion, which was already entering the mature phase of the cycle, received additional support in the form of federal fiscal stimulus (tax cuts and increased spending) in recent months.

[Continue Reading](#)

Apr. 26, 2018

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## **Hacking Threat Comes Into Focus for Municipal Finance.**

As computer hackers become more creative in their attacks on government enterprises, different segments of the municipal industry are being forced to react.

“Everyone saw what happened in Atlanta and thinks that could be us,” said Richard Llewellyn, Los Angeles’ chief administrative officer.

In late March, a hacking crew calling itself the SamSam Group froze a wide range of Atlanta city systems for five days and demanded a ransom equal to \$51,000 in bitcoin. The hackers snarled a broad range of online systems, forcing city workers to swap electronic systems for paper, with computers rendered useless while the city worked for five days to restore service.

The Atlanta hack spared the 911 system, but the story was different in Baltimore, where the automatic dispatch system at the 911 center was shut down for an entire Sunday in March while technicians worked to restore a server breached by hackers.

Colorado’s Department of Transportation was recovering from a February attack that froze 2,000 computers when the system became re-infected. The hack, considered a variation of the SamSam ransomware that struck Atlanta, locked computer files and demanded a ransom for their safe return.

Conversations with S&P Global Ratings analysts and an FBI agent made Tom Kozlik, a PNC Bank credit analyst, realize “there isn’t much the FBI or other authorities can do to stop those kinds of ransomware attacks.”

The issue has become so commonplace that municipalities are being advised to describe the risks in bond offering documents.

Los Angeles Mayor Eric Garcetti launched the LA CyberLab in August to share information about cybersecurity threats with businesses in the city. The lab, a public-private partnership, helps to thwart cyber criminals by disseminating information and intelligence based on the analysis of more than one billion security-related events and over four million attempted intrusions into city networks per day, according to the mayor’s office.

The problem has struck close to home; the Port of Los Angeles' largest terminal was closed for several days in 2017 when the NotPetya computer worm struck shipping firm Maersk, slowing its computers' functions to a crawl.

In February, a Houston man was indicted on charges of using the Los Angeles Superior Court system to send phishing emails to direct people to a fake American Express website.

Earlier, Garcetti spent federal funds on efforts like installing Splunk, data management software that centralizes cybersecurity monitoring.

New York Mayor Bill de Blasio announced last week the city would add \$41 million to its fiscal 2019 budget for cyber security projects.

De Blasio pointed to the attack on the United Kingdom's National Health Service, where medical personnel could not access patient records, putting lives at risk.

Cities have to weigh the cost of the ransom against the millions it would cost to fix systems that were electronically torched by cyber criminals.

Colorado didn't pay a ransom, but Atlanta did.

The FBI's advice runs counter to the popular belief perpetuated by movies where authorities instruct victims against ransom payments, Kozlik said.

When FBI special agent Darin Murphy gave a presentation to members of the Philadelphia Area Municipal Society in April, he told them that it was a business decision for each government, Kozlik said.

A city has to weigh paying something like a \$25,000 ransom versus millions of dollars to repair a corrupted computer system and losing revenue while the system is down, Kozlik said.

Kozlik issued a commentary on the subject in April, and plans to spend the next few months analyzing the threats to municipal credits to offer more detailed guidance.

Orrick, Herrington & Sutcliffe advises clients in nearly every case to include information about cyber security in bond offering documents, said Roger Davis, co-chair of the firm's public finance department.

"It might be a separate section, or it might just be a risk factor, but almost all of the transactions I can think of lately have included some disclosure or advice on cyber security," Davis said.

He said it has been at least a year and a half since Orrick began including information in bond documents.

California had one of the largest examples of a municipal market data breach in 2015, when hackers broke into the UCLA hospital network accessing the records of 4.5 million people. UCLA's hospital network includes four hospitals and 150 offices across southern California.

The trigger for S&P to begin considering the potential credit risk for muni credits came after South Carolina's tax filings were hit in 2015, said Geoff Buswick, an analyst. The amount of taxes paid or returns received were posted to an email group, Buswick said.

Since then, it has become more common to see such online crime happen to cities and school

districts, Buswick said.

S&P pulled a group together in January 2017 to draft a reference guide on potential credit risks from cyber attacks, Buswick said.

The analysts looked at what the federal government was advising state and local governments, and the guidelines laid out by the Multi-State Information Sharing and Analysis Center of the Center for Internet Security, a non-profit entity that coordinates the IT industry to safeguard private and public organizations.

S&P has not created a separate criteria for evaluating municipal cyber risk, but advises analysts to start asking municipalities questions about their defenses and how prepared they are in the event an attack occurs. Many of the questions fall under the analysis of how well a municipality is managed. S&P also asks if a municipality has insurance coverage.

S&P has yet to downgrade any municipal credit because of cyber risk, but Buswick said what happened to Lansing, Michigan is a good example of how these attacks can act as a stress test of sorts and reveal other weaknesses.

The Lansing Board of Water & Light paid the ransom of \$25,000. It was insured, but when its system was attacked officials decided it was too vulnerable and replaced it at a cost of \$2 million, Buswick said. The \$800,000 in insurance did not cover that expense. If the city had been facing a liquidity crunch and it had not been able to cover the additional \$1.2 million expense, its ratings could have been impacted, Buswick said.

In Atlanta, residents still can't pay their water bills online, Buswick said. In that attack, he said, the hackers tried every possible combination of password they could until they could get in.

Georgia has a strong system and has worked with Atlanta on protecting its computer network.

"They have done best practices to try to protect themselves, but attackers are getting more sophisticated," he said.

Moody's Investors Service views "cyber risk as event risk - an incident with a low probability, but potentially high impact," said Joe Mielenhausen, a spokesman.

"Our fundamental credit analysis for municipalities incorporates numerous stress tests, and a cyber event could trigger one of those stress scenarios," Mielenhausen said. "Cyber attacks can shut down service and increase near-term costs for local governments, but ultimately they are manageable assuming the government has ample liquidity and other preparation measures in place."

Aravind Swaminathan, a partner in Orrick's Seattle office, said cities have to maintain ongoing surveillance, because as soon as they overcome one tactic hackers find another method of access.

Swaminathan, a prosecutor in the Department of Justice's computer hacking and intellectual property section for six years before joining Orrick, works with Davis in guiding clients on more than bond disclosure. He is also co-chair of the firm's cyber, privacy and data innovation group.

Municipalities that are not public finance clients are turning to the firm for help in creating a defense system against hackers, meeting federal guidelines on such systems, and determining the best way to handle a data security incident, Swaminathan said.

The team also aids clients if they are facing regulatory or class action lawsuits when protections fail.



“Our practice has handled 350 data security incidents in the past four years,” he said. He did not know what percentage were municipal versus private industry breaches.

“This is a world that is bound only by the creativity of the bad guy, which seems to be limitless,” Swaminathan said. “We are becoming more aware, but the bad guys are evolving just as we are.”

Paul Burton contributed to this report.

## **The Bond Buyer**

By Keeley Webster

May 03 2018

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### **S&P: For U.S. States, A More Positive Tone Emerges For Fiscal 2019 Budget Process; Can It Last?**

With the economy settling into the mature phase of its nearly nine-year expansionary cycle, the approaching fiscal 2019 budget picture for U.S. states is more sanguine than it has been in several years. Not only are revenue collections in most states higher than at this point in 2017, tax receipts are also surpassing fiscal 2018 budget estimates.

[Continue Reading](#)

May 1, 2018

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### **USDA Seeking Applications for Community Facilities Program.**

[Click here](#) to learn more.

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### **Municipal Bonds Weekly Market Report: Strong Wages Data Suggests Fed Could Raise Rates Four Times.**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Treasury yields were mixed, while municipal yields all gained.
- Muni bond funds saw inflows, a reversal of three consecutive week of outflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

by Brian Mathews

May 01, 2018

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## **[Municipal Bonds Weekly Market Report: Fed Keeps Rates Level, While Unemployment Drops to 3.9%.](#)**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Treasury yields were mixed, while municipal yields all fell.
- Muni bond funds saw outflows, a reversal of last week's inflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

by Brian Mathews

May 08, 2018

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## **[Climate Battle Opens New Front; Another Update on Airport Parking Issues; Ballot Initiative Proposed for Minnesota Roads.](#)**

*This Issuer Brief is brought to you by Court Street Group and Neighborly.*

### **Climate Battle's New Front**

It is not a coincidence that the oil industry has asked the Securities and Exchange Commission (SEC) to investigate whether cities that have filed suit against it have themselves committed disclosure violations in their prospectuses related to the potential impact of climate change on their ultimate creditworthiness. Exxon has filed answers to suits filed by several municipalities which seek to flip disclosure responsibilities back onto issuing entities in their efforts to have the municipal suits dismissed. The municipalities seek records to investigate whether the oil and gas giant knew about the role fossil fuels played in climate change. Last week, the highest court in Massachusetts ruled against Exxon Mobil in the company's bid to block the state's attorney general from obtaining records to investigate whether Exxon knew about the role fossil fuels played in climate change.

The court concluded that the state attorney general had jurisdiction to investigate the climate-related offenses by Exxon, which included probing whether the company violated the state's consumer protection law when it marketed or sold its products. In 2015 internal communications, they appeared to show the company knew of the significant role burning fossil fuels played in climate change.

The request from Exxon to the SEC is seen as an effort to intimidate the municipalities from pursuing their lawsuits. The Massachusetts ruling would seem to support continued pursuit of the cities' litigation goals, although it must be noted that the Massachusetts circumstances were favorable to the Commonwealth's arguments. The cities hope to achieve something along the lines of the Master Settlement Agreement reached with the tobacco industry.

Should such an outcome arise, a pool of funding would result on an ongoing basis for settling plaintiffs. When the tobacco settlement was reached, the hope was that the revenues would be used primarily to address healthcare funding. It is likely that many would hope that any revenues resulting from these climate-related legal actions might be applied to efforts to fund resilience projects or other climate change mitigation efforts. In truth, the likelihood is that any revenues would be used for general budget purposes as states and municipalities remain squeezed to meet current expense demands.

### **Another Update on Airport Parking Issues**

We have been talking about the pressures we see on the airport parking component of the airport revenue credit stream. The potential impact of ridesharing and other transportation technologies on these revenue streams has significant potential effects on this credit structure. So we view with interest any expressions of views on these credits as events warrant.

This week we see Standard & Poor's announcing that it has changed its outlook on BWI Airport Parking Revenue Bonds from positive to stable. S&P notes that there has been strong demand at BWI because enplanements increased to 12.9 million in fiscal 2017, a record for the airport. Given that origination and destination traffic represents about 70% of enplanements, there is robust demand for the about 25,000 parking spaces available.

S&P sees the airport as having pricing power in the face of this demand and that it charges the same or lower rates than nearby off-airport parking facilities. There is limited parking nearby, because the MAA captures 78% of the market share, but also faces competition from rail and transit networking companies. It did not discuss any impact from ridesharing but it also noted that the operation generates excess revenues available, after meeting the project's required funding requirements, are transferred to the transportation trust fund at the Maryland Department of Transportation (MDOT). So there are consequences besides the bonds if revenues should come under pressure.

In Rhode Island, ridesharing has moved front and center at Providence's T.F. Green Airport. Uber announced it will be moving its passenger pickup operations off T. F. Green Airport property after failing to reach an agreement on the fee the airport charges its drivers. Uber claims that the move was driven by the airport corporation's move last summer to double, from \$3 to \$6, the fee it charges Uber drivers waiting to pick up arriving passengers. Uber said it is the highest fee among U.S. airports. In contrast, taxis pay \$1.50.

Both sides blamed the other for the standoff. The airport points out that it only charges for dropping off passengers whereas other airports charge for both drop offs and pickups. The RI Airport Commission cited their view that this is a tactic Uber is employing at every major airport in the country and considers the approach by Uber to be heavy handed. It is likely that this could be a process we see at airports across the country as the impact of ridesharing becomes clearer. Uber is not used to seeing its aggressive tactics cause them to lose out. In the end however, the will of the consumer will win the day so it is not clear as to whether this is the beginning of a trend or the last gasp of an existing business model.

### **Ballot Initiative Proposed for Minnesota Roads**

A proposal to amend Minnesota's constitution has been introduced that would dedicate funding for transportation projects. If voters approve, more than \$250 million collected annually from existing auto parts, leases and rental sales taxes would be used exclusively to bolster the state's transportation network. The plan would require legislative approval before it went to the voters. The American Society of Civil Engineers said in a 2017 study that about 6% of the state's bridges are

structurally deficient, and 15% of its roads are in poor condition.

Supporters say 0.6% of the general fund — the state's operating budget — would be prioritized for transportation infrastructure upgrades. Of the \$250 million collected from the sales tax on auto parts, \$145 million is slated to be dedicated for roads and bridges by fiscal 2020. The taxes are not new — the amendment would make the dedication permanent.

The Governor said the transfer would “undermine the structural surpluses in future bienniums,” and other opponents cite the dedication only to road and bridge projects but not to mass transit. Others fear shifting the money exclusively to roads and bridges would come at the expense of education and health and human services. Even though the amendment deals with existing taxes, there is ideological opposition to making them permanent.

The debate is symptomatic of the larger tax debate. Even in the face of clearly defined needs whether they be transit, health, education, or pensions, the starve the beast ideology is powerful and remains a real roadblock to state credits regaining their fiscal strength at pre-recession levels.

**Posted 05/04/2018 by Joseph Krist**

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## **[Ridesharing Continues to Grow at Airports; P3s in PA; and Washington Transit Hits a Snag.](#)**

*These Insights are brought to you by Court Street Group Research.*

### **Ridesharing Growing at Airports**

HTNB is an infrastructure advisory firm which recently released a survey of how airline get passengers get to and from airports. The findings highlight trends which, if they continue, will impact airport and related credits. The HNTB survey found that while the use of ride-sharing services is relatively low compared to other available alternatives, it is increasing. Almost four in 10 (37%) responding air travelers have used ride sharing to get to and from airports. Among this group, 42% have used it within the past year, a notable increase of three times versus 14% in the past one to three years.

HTNB identified one element which is increasingly troubling to analysts of these credits. “This rapidly growing inclination to use ride-sharing services for travel to and from airports is important on many levels, including the potential of increased vehicular congestion at airports as well as impacts it will have for traditional airport revenue sources. One direct revenue example could result from people who use ride-sharing instead of driving themselves and no longer needing parking on-site at airports.”

In addition to a negative impact on the contributions of parking revenue to general airport revenue bond support, a decrease in demand for rental cars would negatively impact debt backed by revenues derived from stand-alone rental car facilities.

[As we wrote recently, more airports are considering user fees for ridesharing companies.](#) The Tampa International Airport (TIA) has begun collecting a per-trip fee on commercial ground transportation vehicles to be phased in over a three-year period. The Hillsborough County Aviation Authority voted to implement the new fee structure starting last August for transportation network companies (TNCs) — such as Uber and Lyft — through the approval of their use and permit agreements. All

other ground transportation vehicles such as taxis, limousines and hotel courtesy buses began the new fee structure in February 2018, when a new tracking technology became available.

We expect this trend to continue.

### **P3 Progress in the Keystone State**

The Pennsylvania Department of Transportation announced last week that the Rapid Bridge Replacement project, the state's public-private partnership (P3) for bridges had 390 bridges complete and open to traffic with 50 under construction. Through the project and other PennDOT investments, more than 1,600 bridges were repaired or replaced from 2015-2017 and the number of structurally deficient state-owned bridges, or bridges considered in poor condition, has dropped to 3,098 from a high of more than 6,000 in 2008.

The private group, Plenary Walsh Keystone Partners is financing, designing, constructing and maintaining the bridges. PennDOT will be responsible for routine maintenance such as snow plowing, debris removal and incident first response. The consortium of companies within the development entity includes, Plenary Group USA Ltd. and Walsh Investors, LLC, which are providing financing and long-term management; a joint-venture construction team of Walsh Construction Company and Granite Construction Company; HDR, Inc., which is the lead design firm; and Walsh Infrastructure Management, which will provide maintenance for a 25-year period upon completion of the bridges.

As we have noted before, there is a place for private capital in the municipal space, including user fee-supported projects and P3s. Policy-wise, this has always been the case, but getting voters to approve capital spending for these projects has been difficult. The classic case is the Interstate, where the attitude is often "this was already paid for," despite the fact that major maintenance now will cost 10-20 times as much as the original project. There are also entrenched political resistances to user pay, such as from trucking companies on highways, but this is a transition that will likely have to happen given the current political climate in Washington in which federal funding has not been increased and doesn't appear to be coming any time soon. The lack of an infrastructure bill will require state and local governments to find more sources of capital for projects.

### **Washington Metro Funding Hits a Snag**

Virginia's House of Delegates voted 50-48 to block proposed Northern Virginia hotel and real estate transfer tax increases to pay for Metro. The proposed changes included increasing from 2 to 3% the tax on hotel stays in areas served by or soon to be served by Metro and an increase in a real estate transfer tax from 15 cents to 20 cents per \$100 of assessed value.

The result is that to meet Virginia's share of regional funding costs for the Metro, money in the Commonwealth's transportation budget must be reallocated from road projects throughout Virginia. The rejected plan would have effectively resulted in Northern Virginia residents paying for a transit system that primarily serves them. Now, the entire transportation constituency in Virginia will effectively pay for a regional asset.

The actions in Virginia highlight the ongoing difficulties that the DC Metro system faces in maintaining its capital assets in the face of operating difficulties and customer dissatisfaction. The choice as it is being posed by the states of Maryland and Virginia as one between roads and mass transit. This comes at a time where the provision of transit facilities – mass or individual – nears an inflection point in terms of public attitudes and demands, funding, and technology.

The situation is instructive as the federal debate with different interests being pitted against each

other as the result of the Administration's less than robust funding proposal inherent in its infrastructure plan. The question is no longer roads versus mass transit but what kind of roads and vehicles are going to be developed, what modes of transportation will be available and desired, and how are these changes going to be funded. That discussion seemed to get lost in the debate over relatively small amounts of funding in the Virginia legislature.

### **Vernon, CA Adopts Utility Tax to Reform Finances**

Vernon, CA is a small industrial city in Los Angeles County constructed almost entirely to support industry. Business located there are heavily concentrated in the food processing, chemical processing and container packaging sectors. There are only 87 registered individuals registered to vote in the City versus more than 1,900 businesses located there. Over time, this has created some problems for the City's financial operations especially its electric system which sells 99% of its load to the industrial entities located in the City. The City has historically depended on subsidies transferred from the revenues of the electric utility to fund General Fund expenses.

Now, the City's residents have taken a step to address that relationship. Last week, voters approved a 6% tax on industrial utilities consumption that the city projects will add around \$12 million annually to the its general fund for the next decade. This money will replace transfers from the utility to the general fund. This will provide more liquidity to the electric utility as well as provide a more stable revenue stream to the City. Cash transfers from the utility historically comprised about 25% of total inflows to the City's account; without the payments, the City would have a substantial deficit each year. The City projects future tax revenue to equal transfers made by the utility in recent years. One weakness in the legislation is that it includes provisions to retire the tax after 10 years, well ahead of the utility's longest dated maturity, which is 2041.

The 6% tax will apply only to industrial and commercial users of electricity, gas, telecommunications, video and water utility services; residential users are exempt. The exemption of residential users was a key element in garnering electoral support. A previous vote to enact a similar tax failed when it did not exempt residential customers from having to pay the tax.

Posted 04/26/2018 by Joseph Krist

### **Neighborly Insights**

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### **[Putting the Public First in Public-Private Partnerships.](#)**

***Public-sector competence is needed to make sure citizens get a good deal—and private vendors are no substitute for adequate public funding.***

In a perfect world, a big-city mayor would not have to wrangle over how to finance a tunnel to the port. But Manny Diaz did not live in a perfect world: He lived in Miami. Port traffic clogging downtown was a decades-old problem. To realize his vision of a vibrant region showcased by a vital city center, Mayor Diaz had to get rumbling, port-bound 18-wheelers off downtown streets.

In 2007, with a plan and money on the table, the Florida Department of Transportation turned up the heat on the term-limited mayor to deliver the tunnel. So Diaz devised a strategy to gin up city and surrounding county support: He tossed a baseball stadium, museums, more funds for a performing arts center—and the tunnel—into one civic wish-list basket and made a successful appeal to regional pride for funding them all. Meanwhile, two multinational firms, Meridiam, a public

infrastructure investor, and Bouygues Travaux Publics, a tunneling and engineering firm, arrived on the scene with the dollars to move the complex initiative forward after the Great Recession unspooled the original consortium. "It was perfect timing," says Diaz.

More than a decade later, the Port of Miami Tunnel is the marquee example of a public-private transportation infrastructure partnership. The concessionaire's financing sources totaled about \$900 million. It gets back a revenue stream based on state and federal funding sources, so there are no tolls. The city now has several new amenities, as well as two tunnels with two lanes each that, shortly after opening, decreased the weekly average volume of all port-bound traffic in downtown Miami by 35 percent and reduced weekly commercial truck traffic by nearly 80 percent.

[Continue reading.](#)

## **The American Prospect**

by Gabrielle Gurley

April 26, 2018

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## **[Successful Launch of NCPPP's P3Insights Breakfast Series.](#)**

NCCPPP kicked off its P3Insights Breakfast Series on Monday, April 23, with a roundtable discussion on "What's Ahead for U.S. Infrastructure Development?" led by John Smolen and Shant...

[Read more.](#)

April 27, 2018

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## **[Bill Would Let Illinois Treasurer Purchase Overdue Bills and Additional Muni Debt.](#)**

CHICAGO - With little reported headway being made toward a fiscal 2019 budget as the General Assembly's spring session heads into its final month, Illinois lawmakers are pressing forward on a measure that would empower the state treasurer to purchase overdue state vendor bills and pitching efforts to cap spending.

Senate Bill 2858, sponsored by Sen. Heather Steans, D-Chicago, seeks to help whittle down the state's \$8 billion backlog and curtail the state's interest tab for its overdue bills.

"This is a winning strategy to make more headway on the bill backlog," Steans said.

The legislation recently cleared the Senate and is expected to be heard by a House committee after the chamber returns next week.

The current backlog stands at \$6.8 billion after Illinois issued bonds to whittle down what was a record \$16.7 billion backlog in the fall. The bills piled up during the state's two years without a budget. Gov. Bruce Rauner's administration estimates the fiscal year will end June 30 with a \$7.7 billion backlog.

The legislation would give State Treasurer Michael Frerichs status as a qualified purchaser under the state's vendor payment program and allow the office to purchase qualified account receivables from state vendors awaiting payment for 90 days or longer. Currently, account receivables are not a permitted investment.

The state's overdue bills accrue interest at up to 1% monthly with more than \$1 billion in interest paid over the last several years. The treasurer's purchases would pay a monthly .3% rate.

"This legislation would reduce the interest rate on those bills when bought by the treasurer's office to 3.6%," Frerichs said. "This isn't borrowing any additional money...it is refinancing that debt to a lower interest rate which will free up more money to pay down the bill backlog."

Under the existing vendor purchase programs, four financing firms are permitted to purchase overdue bills and collect the 9% to 12% interest. The firms recently warned that the state is far in arrears on interest payments, which threatens their future ability to participate in the program.

In addition to trimming state general fund interest costs, the change would earn a higher rate than many other of the state's permissible investment vehicles. The treasurer manages a \$12 billion to \$15 billion state investment pool and has said he could devote between \$500 million and \$1 billion to the vendor program.

The 3.6% of interest would go into the road fund or whatever fund is used to refinance the debt, Frerichs added.

Senate Bill 2661, sponsored by Jacqueline Collins, D-Chicago, would expand the treasurer's ability to purchase county and municipal bonds by allowing the office to buy at or above par to take advantage of a rising interest rate environment. Currently, the law limits bond purchases not to exceed par value. It, too, has cleared the Senate and is awaiting a House committee hearing.

The current requirement "prevents the state treasurer from purchasing qualified, highly rated municipal bonds offered at market rates, which may exceed par at the time of purchase, but will pay a higher coupon payment than current market conditions," a bill summary says, adding that the "ability to purchase municipal bonds above par provides for upside benefits and downside protection in a changing interest rate environment."

Other fiscal matters are high on legislative minds. Republican legislative leaders have filed resolutions calling for the adoption of a formal, certified revenue estimate for fiscal 2019.

"We owe it to Illinois taxpayers to take this first step in finally balancing the state's checkbook and putting Illinois on the right track towards fiscal stability," House Minority Leader Jim Durkin, R-Western Springs, said in a statement.

Rauner is pushing for a certified estimate also, but his Office of Management and Budget and the Commission on Government Forecasting and Accountability are only \$99 million, or .3% apart on projections. GOMB projects \$37.96 billion while COGFA projects \$37.87 billion.

COGFA and governor's office estimates have tracked closely for years while being overly optimistic or pessimistic on actual revenue collections.

The Chicago Civic Federation said in a recent report it has "long supported the development of a consensus revenue forecast" because public finance experts recommend that the branches of government reach agreement prior to publication of the governor's budget to help ensure the review of critical assumptions, remove the forecast from ongoing dispute, and keep the budget process on



track.

Rauner has already proposed his fiscal 2019 budget.

A bipartisan group of lawmakers are also backing a measure to amend the state constitution to limit the growth of general revenue fund appropriations to the rate of the state's recent economic growth. The legislature would require lawmakers need to adopt a resolution saying that an emergency exists to exceed the amount.

The General Assembly formally adjourns at the end of May and passage of measures after that require a higher vote threshold to take effect immediately.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 04/30/18 07:11 PM EDT

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### **[S&P 'AAA' Rated U.S. Counties: Current List.](#)**

U.S. counties with 'AAA' ratings as of April 2, 2018

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### **[S&P 'AAA' Rated U.S. Municipalities: Current List](#)**

U.S. municipalities with 'AAA' ratings as of April 2, 2018

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### **[S&P 'AAA' Rated U.S. School Districts: Current List](#)**

U.S. school districts with 'AAA' ratings as of April 2, 2018

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### **[Boston's New Site Aimed at Municipal Bond Investors is Powered by Local Startup BondLink.](#)**

Seaport-based [BondLink Inc.](#), a software startup that helps municipal bond issuers connect with investors, has found its latest customer close to home — the city of Boston on Thursday launched a new investor relations website powered by BondLink.

The new site, [BuyBostonBonds.com](#), gives potential investors insight into the city's finances, the projects it's currently funding through bond sales, and other information. In addition to public-facing

websites, BondLink builds a variety of backend tools that help cities, states and universities manage their relationships with investors.

BondLink was co-founded by Colin MacNaught, who led the Commonwealth of Massachusetts' Debt Management Department from 2008 to 2015.

"It was really my own personal experience (that led to BondLink)," MacNaught said. "I was struck by the notion that there was really no technology to help me connect with investors and engage with investors."

BondLink sells to municipalities on the idea that the software will help them attract more investors, which will in turn improve the prices on their bonds. The startup earlier this year raised \$10 million from Franklin Templeton Investments, one of the largest bond investors in the country, which proved to MacNaught that municipal bond investors are desperate for the kind of data and analytics BondLink can offer them.

"It's certainly long overdue for this market to get to where the stock market is," MacNaught said. "We're trying to bring those tools to the municipal bond market."

For BondLink, Boston is just the latest in a string of high profile customers the startup has signed on since it launched its software in late 2016. The State of California, the largest municipal bond issuer in the country, and the State of Ohio are both customers, as is the City of Chicago.

"The market is enormous," MacNaught said. "75 percent of the things around you — the roads, the bridges, the schools, the subways, the airports, the sewers you don't see — those are all funded through the municipal bond market."

The company has about 20 employees, with plans to roughly double that number by the end of the year, according to MacNaught.

## **Boston Business Journal**

By Kelly J. O'Brien

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### **[NFMA Recommended Best Practices in Disclosure for Water and Sewer Bonds.](#)**

The National Federation of Municipal Analysts Disclosure Committee has released the final version of the [Recommended Best Practices in Disclosure for Water and Sewer Bonds](#), Dated April 2018.

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### **[Key County Economic Programs Boosted Under FY2018 Omnibus Bill.](#)**

***The omnibus bill will add \$6 billion to housing, workforce and economic development programs crucial to counties***

Several federal departments that deliver crucial housing and workforce and economic development programs to counties saw funding increased by nearly \$6 billion under the FY2018 omnibus bill recently signed into law by President Trump.

The three departments overseeing these key programs include Housing and Urban Development (HUD), Commerce (DOC) and Labor (DOL). Under the FY2018 omnibus, HUD was funded at \$42.7 billion for FY2018, a \$3.9 billion increase over FY2017; DOL was funded at \$12.2 billion, a \$129 million increase above FY2017 levels; and DOC was funded at \$11.1 billion, a \$1.9 billion increase over FY2017.

Some of the programs receiving an increase in funding under the FY2018 omnibus include the Community Development Block Grant (CDBG), the HOME Investment Partnerships (HOME), the Economic Development Administration (EDA) and the Workforce Innovation and Opportunity Act (WIOA).

## **Department of Housing and Urban Development**

CDBG: CDBG is funded at \$3.3 billion under FY2018 appropriations, an increase of \$300 million over FY2017 funding levels. Counties utilize the flexibility of CDBG funds to support projects addressing community and economic development priorities, including housing, water, infrastructure and human services.

HUD's CDBG program provides annual grants on a formula basis to more than 1,200 metropolitan city and county governments, as well as to state governments. Nearly 200 counties are "entitlement counties" — those counties with populations exceeding 200,000, not including metropolitan areas — which receive CDBG grants directly. Non-entitlement communities must compete for funding through the state formula allocation. According to HUD, for every \$1 of CDBG funds invested, an estimated \$4.09 is leveraged in other public or private sector funds.

HOME: The omnibus includes \$1.36 billion for HOME, an increase of \$412 million over FY 2017 funding levels. In addition, the bill extends the suspension of the HOME 24-month funds commitment deadline through 2020.

HUD's HOME program, authorized in 1990, assists state and local governments in providing affordable housing for low-income families, with 60 percent of HOME funds being allotted to the nearly 650 participating jurisdictions in counties and cities. HOME funds can be used towards the acquisition and rehabilitation of housing, or towards tenant-based rental assistance, depending on a county's housing needs.

Homelessness Assistance Grants: Another HUD program dealing with affordable housing, Homelessness Assistance Grants, were funded at \$2.5 billion, a \$130 million increase over FY 2017 levels. The omnibus bill allocates \$80 million of the \$2.5 billion to addressing youth homelessness.

## **Department of Commerce**

EDA: The omnibus provides \$301.5 million for the Department of Commerce's Economic Development Administration (EDA), a \$25.5 million increase from FY2017 levels. EDA funding supports regional strategies and serves as a catalyst in helping communities achieve long-term growth. The omnibus also directs EDA to use funding provided under Public Works and Economic Adjustment Assistance accounts for the support of high speed broadband, especially in underserved areas.

Under the Department of Commerce, EDA is the only federal agency with a mission solely focused on private sector job creation in distressed areas. EDA makes investments and builds partnerships to help regions and communities respond to shifts in international markets, address severe unemployment challenges and recover from plant closures, major natural disasters and other

chronic and sudden economic hardships. EDA-funded projects are awarded on a competitive basis and typically require a 50 percent local match and significant private sector investment, helping ensure projects have local support and are part of a broader regional strategy.

## **Department of Labor**

WIOA: The FY 2018 omnibus bill includes \$2.8 billion for Workforce Innovation and Opportunity Act (WIOA) Title I programs, an \$80 million increase over FY 2017 levels. Of this amount, \$845.6 million is included for adults, \$903.4 million for youth and \$1.041 billion for dislocated workers. WIOA Title I focuses on workforce development activities at the state and local level and establishes funding for three key formula grants: Adult, Dislocated Workers and Youth programs. WIOA provides critical workforce training and career services to counties.

WIOA was enacted in 2014, reauthorizing federal employment, workforce and training programs and formula funding to states and localities. WIOA is the largest single source of federal funding for workforce development activities, intended to help states and counties tackle and overcome workforce challenges. Over the last program year, WIOA employment and training programs assisted 7.3 million individuals. In 2016, 64 percent of WIOA participants gained employment, including 77 percent of adults and 82 percent of dislocated workers who received training services.

Congressional appropriators are already working on FY2019 spending levels, which must be set and passed before the current fiscal year ends Sept. 30. If legislators are unable to reach an agreement and pass a spending bill by Sept. 30, a continuing resolution will need to be passed to keep the government open.

In February, Trump released his FY2019 budget request, which outlined the administration's federal spending priorities for the next fiscal year. The budget request would eliminate or reduce funding for many community and economic development programs important to counties.

The proposal would eliminate funding for CDBG, HOME and EDA and reduce funding for WIOA and homelessness assistance compared to FY2018 levels.

NATIONAL ASSOCIATION OF COUNTIES

By DARIA DANIEL, SOFIA FERBER

Apr. 16, 2018

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## **[EPA Taking WIFIA Loan Applications.](#)**

The Environmental Protection Agency (EPA) is now accepting letters of interest for loans provided through the Water Infrastructure Finance and Innovation Act (WIFIA) program to support water infrastructure projects. The WIFIA program is a federal loan and guarantee program within EPA that aims to accelerate investment in the nation's water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects, including many county water infrastructure projects. The new funding announcement is designed to provide up to \$5.5 billion in loans and leverage over \$11 billion for water infrastructure projects.

### **Learn More**

[How to submit a letter of interest for the current round of WIFIA funding](#)

Prospective borrowers seeking WIFIA credit assistance must submit a letter of interest (LOI) by July 6.

The funding announcement lists two major priorities for this round of funding: providing clean and safe drinking water and reducing lead exposure; and repairing, rehabilitating and replacing aging infrastructure and conveyance systems.

Nonetheless, WIFIA credit assistance can be used for a wide range of projects including drinking water treatment and distribution; wastewater conveyance and treatment; enhanced energy efficiency at drinking water and wastewater facilities; desalination; water recycling; and drought prevention or mitigation projects, many of which involve county-owned and maintained water infrastructure.

The WIFIA program received \$63 million in funding in the FY2018 omnibus appropriations package, more than doubling the program's overall funding from 2017. In 2017, EPA invited 12 projects across nine states to apply for WIFIA loans totaling over \$2 billion.

Generally, the WIFIA program helps finance larger water infrastructure projects — primarily those with an anticipated cost of \$20 million or more. However, recognizing the need for investment in both large and small communities, Congress has stipulated that 15 percent of WIFIA funds be set aside each year for small communities serving fewer than 25,000 residents. Such projects have a lower-cost threshold for eligibility, only requiring an anticipated cost of \$5 million or more.

NATIONAL ASSOCIATION OF COUNTIES

By JULIE UFNER, AUSTIN IGLEHEART

Apr. 16, 2018

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## **MOU Streamlines Environmental Permitting Process.**

Environmental permits will be streamlined for infrastructure projects under a Memorandum of Understanding (MOU) recently signed by President Trump.

The "One Federal Decision" MOU aims to accelerate the environmental review process for major infrastructure projects such as new highway construction and runway expansion or repair. Signatories of the MOU include the departments of the Interior, Agriculture, Commerce, Housing and Urban Development, Transportation, Energy, Homeland Security and the Environmental Protection Agency.

The One Federal Decision stems from the administration's "one agency, one decision" environmental review procedure, which is detailed in Trump's infrastructure plan released earlier this year. The memorandum aims to improve the current permitting process by consolidating decision-making, cutting costly delays and changing environmental review methods, according to the administration.

Streamlining the environmental review process for a variety of infrastructure projects will significantly cut the amount of time it takes to process permits, the administration claims. In 2017, Trump signed Executive Order (EO) 13807, "Establishing Discipline and Accountability in the Environmental Review and Permitting Process for Infrastructure Projects," to reduce the permit processing time of new major infrastructure projects to no more than 21 months, with actual permits

issued within three months following a decision.

These changes would achieve the administration's goal of shrinking the permitting process to two years from what can sometimes be 10 or 20 years. The MOU also calls for one lead federal agency to work collaboratively with all other pertinent agencies to reach a final decision before signing off on their respective jurisdictional purviews of a project as opposed to the existing sequential process requiring permit applicants to go through a lengthy process of dealing with multiple federal agencies.

In addition to creating a shorter timetable, the One Federal Decision aims to cut back on unnecessary costs that delays can create. By working cooperatively, federal agencies can ensure important infrastructure projects are completed in a timely and cost-effective manner, according to the administration.

NATIONAL ASSOCIATION OF COUNTIES

By SOFIA FERBER

Apr. 16, 2018

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## **[Rising Yields Make Floating-Rate Munis a Draw to Some Buyers.](#)**

- **Weekly gauge of yields is holding at highest since 2008**
- **'We think that's a pretty good deal,' said Neuberger's Iselin**

With yields on floating-rate municipal bonds holding at their highest in almost a decade, they've become a draw to investors like James Iselin.

Iselin, who oversees about \$10 billion as head of the municipal fixed income team in New York at Neuberger Berman Group, said in an interview that he's been buying the securities. The debt is currently yielding more than even top-rated two year bonds, according to Bloomberg indexes, and offers protection against rising interest rates because it can always be sold for 100 cents on the dollar.

"We actually think those securities help cushion downside because they always trade at par, but also allow our clients to participate in a rising rate environment," he said.

The SIFMA Municipal Swap Index, a gauge of floating-rate yields, rose to 1.81 percent on Wednesday, the most since late 2008.

"For a security that really has no duration, and is federally tax-exempt, we think that's a pretty good deal," said Iselin, referring to the index.

## **Bloomberg Markets**

By Amanda Albright

April 19, 2018, 10:33 AM PDT

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## **The Big Exodus From Muni-Bond Funds Isn't Cause for Concern Yet.**

- **The \$830 million pulled last week was most since January 2017**
- **Outflow probably caused by tax payments, not sentiment shift**

Don't get too worried just yet that investors are about to begin stampeding out of the municipal-bond market.

Investors pulled about \$830 million out of state and local government bond mutual funds during the week ended April 11, the biggest outflow since January 2017 and the second straight week of investors pulling cash, according to the Investment Company Institute. Municipal analysts and investors have fretted over the possibility that the year's poor start could cause a prolonged run of outflows, posing a potential threat to a market that's already delivered negative returns this year.

Given that the market has stabilized — and eked out gains last month — Barclays Plc thinks the outflows will be short lived, said Mikhail Foux, head of municipal strategy for the bank. Foux said the outflow was probably driven by investors selling their holdings to pay their tax bills.

Despite the last two weeks, municipal funds have still largely drawn in cash this year, said James Iselin, managing director at Neuberger Berman Group, in an interview. And new deals his firm has bid on over the last two weeks have been "many, many times" over-subscribed, showing that demand for municipals is still strong, he said.

"Usually what drives outflows in the muni market is a rapidly rising rate environment, and to the contrary, since that big period of volatility at the end of January and February, rates have actually settled down a lot," Iselin said. "I don't see that as a catalyst."

But even if it is the result of raising cash to pay tax bills, the outflow may still continue this week. The Internal Revenue Service said it would give taxpayers an extra day to file their returns electronically after a computer malfunction disrupted the agency's website.

"I think it will go back to normal," said Chris Mier, chief strategist at Loop Capital Markets, predicting that the funds will go back to drawing in around \$750 million a week. "The fact that we are in a positive cash flow mode given the amount of change in the environment is very favorable."

### **Bloomberg Markets**

By Danielle Moran and Amanda Albright

April 18, 2018, 10:28 AM PDT

— *With assistance by Martin Z Braun*

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## **S&P: For California, The Road To Fiscal Recovery; For Illinois, The Road Not Taken.**

Despite the widespread economic and fiscal stress associated with the Great Recession, most U.S. states weathered the historic downturn with their credit ratings intact. California (AA-/Stable) and Illinois (BBB-/Stable) were not as fortunate.

Apr. 19, 2018

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## **Neighborly Issuer Brief: Some Federal Road Dollars Flow to States Despite Lack of Infrastructure Bill.**

*This Issuer Brief is brought to you by Court Street Group and Neighborly.*

### **Some Federal Road Dollars Flow to States**

While the “infrastructure plan” flounders in Congress, at least some federal dollars have been provided to states for immediate road projects. The Bipartisan Budget Act included \$1.374 billion for Federal Highway Administration’s (FHWA) “emergency relief” account. The agency taps what it calls the ER funds to help states pay both for quick repairs in the wake of current disasters and to reimburse DOTs for eventual expenses that develop well after those emergencies – including costs that may occur for years later.

In this federal fiscal year, USDOT provided \$768.2 million in accrued reimbursement requests for emergency repairs to roads and bridges in 40 states. Included was \$670.3 million that went directly to state agencies for emergencies dating back to 2009, and \$97.9 million to other federal agencies for damages to roads they own from events dating back to 2010. The FHWA allocated about \$467 million to state DOTs for qualifying expenses from events back to 2004, plus \$52.5 million to federal land management agencies for repair costs from emergencies dating to 2010.

The ranking member on the House Transportation and Infrastructure Committee noted in October there was at least a \$1.76 billion backlog of qualified ER needs – not counting the repair bills to come as a result of the devastating late-summer hurricanes and autumn western wildfires – and the FHWA account then had an unspent balance of \$911 million. Congress, in its omnibus appropriations measure, voted last month to triple the TIGER funding pool for 2018 to \$1.5 billion, and lawmakers included language requiring the USDOT to act along a specified timeline. The congressionally mandated schedule would have the department issue a notice of funding availability by May 22, receive all grant applications by Aug. 20 and announce grant recipients by Dec. 18.

Given the political environment in D.C., we see little chance of any infrastructure bill in 2018. Issuers should focus on the positive developments out of the budget agreement to find ways in which the federal government can complement their infrastructure needs.

### **Bay Area Ballot Initiative to Fund Transit is Proposed**

Bridge tolls across the Bay Area will rise by three dollars if the voters in nine counties, including San Francisco, approve Regional Measure 3 to fund transportation in June. If the measure is approved by a simple majority, the toll on the Bay Bridge would rise from 6 to 9 dollars during commute periods, for instance. The price would not go up immediately, however, as the tolls are set to increase by \$1 in 2019, \$1 in 2022 and \$1 in 2025.

The increased tolls would fund nearly \$4.5 billion in transit projects across the region, meant to lessen traffic congestion and address a booming workforce. 75% of the funds from Regional Measure 3 would be used for regional transit projects, including in San Francisco. Around \$500 million would



help fund new BART cars, \$140 million would replace and expand Muni's fleet and facilities and \$325 million would help fund the Caltrain extension to the Transbay Transit Center in South of Market.

To prepare for the future, \$50 million would go toward studying a potential new underwater Transbay Tube, which could carry BART or Caltrain rail cars. San Francisco car and shuttle commuters traveling south would also benefit, as the measure would fund improvements to the U.S. Highway 101/SR-92 Interchange and \$130 million in improvements to the Dumbarton corridor.

The Metropolitan Transportation Commission is also developing a new regional transit fare discount program. That discount will reduce transit fares by 30 to 50% for low-income riders. Alameda County would net 32% of project funding, Contra Costa County 18%, Santa Clara County 15%, Solano County 10%, San Francisco County 9%, San Mateo County 8%, Marin County 4%, Sonoma County 3% and Napa County 1%.

Most bridge tolls are paid by Alameda county residents, who took 29% of total bridge toll trips between 2016 and 2017, according to the MTC. San Franciscans, by contrast, took 10% of bridge toll trips in that period. Bridges under the authority of the MTC and the Bay Area Toll Authority cost \$5, but the Bay Bridge is \$6 during peak commute hours. Golden Gate Bridge tolls, which are \$7.75 if paid by license plate and \$6.75 if paid by FasTrak, are managed by a separate agency and would not see tolls rise if Regional Measure 3 is approved.

As states and localities continue to deal with managing transportation initiatives, we see it inevitable that they will need to be agile in future planning for both their budgets and long-term planning for population changes.

## **Resilience Trumps Tradition in Houston**

The City of Houston has had a long-time policy of minimal zoning requirements and a real lack of meaningful constraints on development. This has covered not only the type and pace of development but also its location. This has aided and abetted Houston's rapid rate of growth since 1900 but also has contributed to the City's long and well-documented history with flooding. Now though, it looks like nature may have won out over established attitudes as the result of Hurricane Harvey.

The Houston City Council agreed last week to require new homes built in the floodplain be elevated higher off the ground. This is the City's first major regulatory response to the widespread flooding Hurricane Harvey unleashed in 2017. The vote marks a shift away from Houston's long-time aversion to constraining development, as all new construction in the city's flood plains will have to be built two feet above the projected water level in a 500-year storm.

Current regulation mandates that buildings be constructed one foot above the flood level in a less severe 100-year storm and apply only within the 100-year floodplain, where properties are considered to have a 1% annual chance of being inundated. This will be the first time Houston is imposing minimum elevation requirements within the 500-year floodplain.

As we have noted before, it is important to disclose these impacts in Official Statements and Houston is moving in the right direction.

## **Pricing the Street as an Asset**

The proposal by Boston's mayor to raise the cost of parking tickets as part of a plan to increase funding for public transit reflects a move toward the view that city streets are an asset which can be

monetized. This has been an increasingly favored idea among those who are thinking of more creative ways to merge policy goals with funding goals in the transportation sector. The mayor's fiscal 2019 budget includes increases for 11 types of violations that residents complain about most. The penalty for double parking in downtown neighborhoods would increase from \$45 to \$75; parking during street cleaning would yield a \$90 fine, more than double the current \$40 cost; parking in a resident-only spot without a sticker would rise to \$60, from \$40; while overstaying a meter would shoot to \$40, from \$25.

Non-financial aspects of the plan would include the replacement of parking spaces with dedicated bus lanes and the creation of ride sharing pick-up/drop off spaces at selected areas. We noted earlier this year that Washington, D.C., is also implementing a plan that turns some spaces formerly dedicated to overnight street parking to designated areas for ride sharing vehicles to use. These areas are designed to support the city's thriving nightlife activities.

*Disclaimer: Neighborly has entered into a paid agreement with Court Street Group to provide commentary on a regular basis to all customers, users, prospective customers, and prospective users of Neighborly and Neighborly Securities. The opinions and statements expressed in this report are solely those of the author(s), who is solely responsible for the accuracy and completeness of this report. The opinions and statements expressed on this report are for informational purposes only, and are not intended to provide investment advice or guidance in any way and do not represent a solicitation to buy, sell or hold any of the securities mentioned. Opinions and statements expressed reflect only the view or judgment of the author(s) at the time of publication, and are subject to change without notice. Information has been derived from sources deemed to be reliable, but the reliability of which is not guaranteed. Readers are encouraged to obtain official statements and other disclosure documents on their own and/or to consult with their own investment professional and advisors prior to making any investment decisions.*

Posted 04/19/2018 by Joseph Krist

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## **[Municipal Bonds Weekly Market Report: Fed Changes Role to Neutral.](#)**

MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.

- Treasury yields saw increases while muni yields mostly fell.
- Muni bond funds saw their second consecutive week of outflows this week.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

Brian Mathews

Apr 17, 2018

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## **U.S. Bank Executives See Delayed Boost from Tax Overhaul.**

NEW YORK (Reuters) – Banks have not reaped the full benefit of U.S. tax cuts, Wall Street executives said on Friday after a string of quarterly results, with expected business growth and higher consumer spending yet to materialize.

Analysts and investors are still trying to work out the longer-term effects of the tax rewrite signed into law in December, which slashed the federal corporate rate.

Asked what impact Wells Fargo & Co (WFC.N) is seeing from the new tax law, the bank's finance chief, John Shrewsberry, said "not much yet."

Bank executives said last quarter that tax cuts and changes in capital expense deductions should stoke broad economic growth, fueling expectations of higher lending and capital markets activity.

"It has not been a big mover of our business or what you can see in the real economy," Shrewsberry said, though he expects that to change later this year.

There has been some wage growth but consumer spending has not picked up accordingly, he said. Wells Fargo has not had any unusual uptick in loan demand or meaningful changes to how products and services are priced, he added.

"As much as we're all eager to see the benefits ... I think we have to recognize that tax reform is still in the early phases," JPMorgan Chase & Co (JPM.N) Chief Financial Officer Marianne Lake said on a media conference call after the bank reported first-quarter results.

She told reporters earlier that JPMorgan expects to see benefits, but "with a lag."

"While client sentiment is high in the wake of corporate tax reform and we remain hopeful that this will support higher demand later in the year, we're not seeing that yet, and we are maintaining pricing and credit discipline," Lake said about loan demand.

Financial markets have already reflected investors' enthusiasm about the cuts, Citigroup Inc (C.N) Chief Financial Officer John Gerspach said on a call with reporters to discuss results, and the actual benefit to the U.S. economy will only come once investment plans are finalized.

Lower Manhattan including the financial district is pictured from the Manhattan borough of New York, U.S. June 1, 2016. REUTERS/Carlo Allegri/File Photo

"A lot of corporate actions are in the planning stage. People usually have nine to 12 months to plan for tax reform. People had a chance to digest this right around the last three weeks of last year," Gerspach said.

A cut in the federal corporate tax rate to 21 percent from 35 percent has helped banks boost profit, but other details of the new tax code have not helped their bottom line.

Wells Fargo said interest income slipped 1 percent in the first quarter due in part to lower income from so-called tax-advantaged products in light of newly lowered tax rates.

Lower tax-equivalent yields on municipal bonds should weigh on year-over-year comparisons of the lender's net interest margin by around 4 basis points for the rest of the year, Shrewsberry said on an analyst call.

The third-largest U.S. bank by assets also flagged that tax changes had weighed on new debt

issuance and secondary trading, though strong equity trading helped boost its total trading-related revenue.

Reporting by Meredith Mazzilli, Elizabeth Dilts and David Henry in New York and Sweta Singh in Bengaluru; Editing by Bill Rigby

APRIL 13, 2018

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## **Fitch: Upgrades Outpacing Downgrades So Far for U.S. Not-For-Profit Hospitals.**

Fitch Ratings-Austin-16 April 2018: Affirmations, not surprisingly, are encompassing a majority of rating actions Fitch Ratings has taken on its rated U.S. not-for-profit hospitals since launching its new criteria earlier this year, though a new report from Fitch is showing another somewhat surprising result.

Approximately 60% of the rating actions to date have been affirmations. However, since the criteria launch in January, rating upgrades are commandingly ahead of downgrades (27% to 13%) among the hospitals Fitch had placed on Rating Watch. A closer look shows, perhaps more surprisingly, that Fitch has upgraded five of eight hospitals it placed on Rating Watch Positive thus far while downgrading only two of six hospitals it placed on Rating Watch Negative.

‘Considering the challenges not-for-profit hospitals were set to face at the start of the year, most are showing robust resiliency as the assorted headwinds are not affecting operating performance thus far,’ said Senior Director and sector head Kevin Holloran.

Stronger not-for-profit health care providers are responding with alacrity in maintaining strong balance sheets and keeping debt levels manageable during periods of financial stress or transformation. The hospitals Fitch has taken negative rating on thus far, in contrast, are having more difficulty withstanding financial pressures and stabilizing their balance sheets.

‘The wave of rating activity is likely to subside over time with fewer rating changes likely over the next several months,’ said Holloran.

‘U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: The First 90 Days’ is available at ‘[www.fitchratings.com](http://www.fitchratings.com)’ or by clicking on the link above.

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## **Fitch: Potential NAFTA End Pivotal for U.S. Midwest and Border States.**

Fitch Ratings-New York-11 April 2018: A U.S. withdrawal from NAFTA would be a potential economic watershed for several state economies with close exporting ties to America's neighbors, according to a new report from Fitch Ratings.

"Withdrawal from NAFTA would cut economic and job growth along with tax revenue, constrain budgetary flexibility and lead to higher unemployment for states that are less populous and economically diverse, specifically states in the upper Midwest and Southwest border-states," said Michael D'Arcy, Director, Fitch Ratings.

The states that would be most impacted by a U.S. withdrawal, as measured by the percentage of their exports that are sent to Canada and Mexico, include the following: North Dakota (87%), Michigan (65%), South Dakota (62%), Missouri (56%), Ohio (52%), Texas (49%), Arizona (48%) and New Mexico (47%).

"Texas, Arizona, New Mexico and Michigan in particular are more susceptible to economic losses given their close commercial relationship with Mexico and the higher tariffs that Mexico could impose on U.S. goods under World Trade Organization (WTO) rules," said D'Arcy.

While much attention has revolved around the Trump administration's negotiations with Mexico, a significant wild card is the worsening trade relationship between the U.S. and Canada. Canada's recent formal complaint against the U.S. with the WTO earlier this year has raised the temperature of negotiations. The U.S. has also imposed tariffs on 11 classes of Canadian goods.

The economic impact on the U.S. as a whole of a withdrawal from NAFTA would be much less severe than its effect on select state economies, however, as exports of goods and services accounted for only 12% of U.S. GDP in 2016. Exports to Canada and Mexico accounted for 18% of the total or only 1.4% of U.S. GDP in 2016.

Fitch anticipates that the U.S. will ultimately choose to participate in an updated NAFTA. Even if the U.S. were to withdraw, Fitch expects trade flows would adjust rapidly as U.S. importers and exporters find replacement suppliers/buyers in non-NAFTA nations and divert a portion of their trade to those destinations. Fitch expects trading patterns between the three NAFTA member countries and other nations to shift perceptibly even if a new NAFTA agreement is signed, however.

"The experience of renegotiating NAFTA has been something of a watershed for all three participants," D'Arcy said. "The 'near-miss' of a NAFTA cancellation in the past several months has acted as a wake-up call to farmers and businesses in all three nations."

Less amicable trading relationships between the three NAFTA countries have been one result, increasing the likelihood that Mexico and Canadian consumers and business will seek to obtain some of the same goods and services from alternative sources such as China and European and South American countries in the future. U.S. exporters like Midwestern farmers who had grown quite dependent on NAFTA will also seek to broaden their exporting relationships outside of North America in the near term.

The full report, "NAFTA Termination Could Hit Upper Midwest, Border State Economies Hard," can be found at [www.fitchratings.com](http://www.fitchratings.com) or by clicking on the link.

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## **Municipal Bonds Lead Surge in CUSIP Volume, Signaling Growth in New Issuance.**

NEW YORK, April 11, 2018 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for March 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a monthly increase in volume of CUSIP requests for new corporate equities and debt and municipal bonds. This is suggestive of strong pace of new corporate and municipal issuance in the second quarter of 2018.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,625 in March, up 9.0% from February. On a year-over-year basis, that puts total corporate identifier request volume for the first quarter of 2018 7.7% higher than the same period in 2017. Overall corporate request volume was driven by 1,037 new requests for U.S. corporate equity identifiers, 902 new requests for U.S. corporate debt identifiers, and 388 requests for combined Canadian corporate debt and equity identifiers.

Municipal CUSIP requests showed significant growth in March. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – logged a 30.9% increase over February's activity. That surge in growth was driven primarily by a 37.9% increase in new municipal bond identifier requests. On a year-over-year basis, total municipal identifier request volume is down 27.6% versus the same period last year. Prior to March, municipal bond issuance had been trending downward following the implementation of the Tax Cuts & Jobs Act, which repeals advanced refunding of municipal bonds.

[Continue reading.](#)

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## **KBRA: Governments on the Front Line of Addressing Climate Change.**

NEW YORK-(BUSINESS WIRE)-Kroll Bond Rating Agency (KBRA) releases report on city and state actions on climate change. U.S. weather disasters caused record damage in 2017. The disasters, which were spread across the nation, included: three tropical cyclones, eight severe storms, two

inland floods, a crop freeze, droughts and wildfires. Cities and states are engaging their constituents on the issues, taking action, and working to raise much needed public awareness and support. There is no single government strategy to combat climate change, a multitude of efforts is required. KBRA believes that governments with proactive climate change plans are best positioned for long term credit health.

To access the full report, [click here](#).

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## **[Airlines Know You Hate the Airport, and Are Trying to Do Something About It.](#)**

***Airlines are pitching in to help renovate and expand U.S. airports, while jostling for the extra gates***

Competition between airlines is heating up over airport expansion plans.

American Airlines Group Inc. signed on last month to a \$8.5 billion renovation at O'Hare International Airport after bristling for months at what it argued was preferential treatment for the Chicago gateway's largest tenant, United Continental Holdings Inc.

American, United and other carriers at O'Hare agreed to new airport leases that will underpin funding plans for an expansion that is being mirrored at other big hubs across the country. From Los Angeles to New York to Atlanta and dozens of other airports, airlines and local officials are planning \$100 billion in renovations over the next few years, according to the Airports Council International-North America trade group.

[Continue reading.](#)

### **The Wall Street Journal**

By Doug Cameron and Patrick McGroarty

April 11, 2018

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## **[S&P: U.S. Not-For-Profit Electric Utilities' Credit Quality Benefits From Factors That Insulate Them From Problems Plaguing Merchant Generators.](#)**

FirstEnergy Solutions Corp., a merchant energy subsidiary of FirstEnergy Corp., filed for Chapter 11 bankruptcy protection April 1, the latest in the sector that highlights the distinctions between merchant generation companies and public power and electric cooperative utilities.

[Continue Reading](#)

Apr. 9, 2018

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## **Cybersecurity: Is It Enough of a Factor in Credit Risk Analysis?**

*This report has been prepared by Court Street Group Research.*

In light of the recent attacks on Atlanta and Baltimore's municipal computer systems, investors in municipal debt should start to consider the protective measures being undertaken by municipalities to deter future attacks.

Which elicits the question: Should the issue of cybersecurity be more explicitly addressed by raters and investors as a component of the analysis of creditworthiness and relative value?

We have noted more than once the lack of significant reference to the issue in offering documents and financial statements. Though, ratings agencies do sometimes reference the issue in general statements. What we do not see is a truly granular analysis of how cybersecurity vulnerabilities could affect a municipality's underlying credit. Perhaps this is because there has not been a significant enough cost — operationally or financially — to stimulate the effort. It could also be seen as reflective of a view expressed in some rating agency comments that puts these events on a par with natural disasters. This would seem to imply reliance on a federal response to the financial implications of a large-scale financial attack.

We see a major weakness in that approach. The first is that the frequency and cost associated with natural disasters seems to be on an ever-rising upward curve. This has made each response to these events more contentious politically as the approval process for appropriations of federal dollars to support recovery efforts become more intertwined with general budget politics. More important is the recent public stance taken by FEMA officials.

Last week, the agency's deputy administrator gave a speech which included the following. "FEMA is not a first responder. We are going to be very blunt with the American public about what FEMA can and can't do, about what the federal government can and can't do, and I hope state and local governments take this forward as well. FEMA will continue to fund the recovery for smaller disasters, but increasingly, we will be looking for state and local governments to manage those programs."

He was primarily talking about natural disasters. If municipalities are going to compare the impact of a cyber attack with that of say, a hurricane, then this would make a reliance on a federal response to events like cyber attacks on individual entities somewhat dubious.

Make no mistake there are costs. A pair of attacks in February and March of this year have so far cost the Colorado Department of Transportation an estimated \$1.5 million with mitigation efforts still going on. There does not seem to be an available public assessment of the costs incurred by the City of Atlanta in response to the attack it felt. The costs involve not just those associated with technical fixes but potential revenue losses associated with delayed billings, collections, and business transactions. So what are localities doing to protect themselves?

In 2016, the International City/County Management Association (ICMA) surveyed some 3,400 municipalities in the U.S. to see what efforts were being undertaken to avoid cyber attacks. While the response rate was only 12% (who wants to admit shortcomings?), the results are nonetheless informative. Only 1% of the responding local governments have a stand-alone cybersecurity department or unit.

Most of the responding local governments do not outsource cybersecurity functions (61.8%); The inability to pay competitive salaries for cybersecurity personnel (58.3%); Insufficient number of



cybersecurity staff (53.0%); and, Lack of funds (52.3%) were identified by responding local governments as severe or somewhat severe barriers to achieving the highest possible level of cybersecurity.

To the extent that this data is indicative, it is not surprising that the number of attacks and attempted attacks is rising. Yet we do not see the issue as a significant one as either a pre-sale or ongoing disclosure issue and we do not see the issue discussed on an issuer-specific basis. So we have to wonder what scale cyber attacks must reach before it becomes a significant enough credit issue?

### **More Bad News for Nuclear Generation**

In a few states, nuclear generation operators have successfully obtained operating subsidies from states to help to justify the continued operation of generating assets in the current unregulated environment. The motivation that nuclear is a way to lower carbon dioxide emissions.

FirstEnergy Solutions (FES), its subsidiaries and FirstEnergy Nuclear Operating Company (FENOC) own, and operate two coal-fired plants, one dual fuel gas/oil plant, one pet-coke fired plant and three nuclear power plants in the competitive, or non-regulated, power-generation industry. FirstEnergy Corp. announced in November 2016 that it planned to exit the competitive generation business. On March 28, 2018, FES filed notice with PJM Interconnection LLC (PJM), the regional transmission organization, that the three nuclear facilities would be deactivated or sold during the next three years.

FirstEnergy Solutions (FES), its subsidiaries and FirstEnergy Nuclear Operating Company (FENOC) (together, the "Filing Entities") announced that to facilitate an orderly financial restructuring, they have filed voluntary petitions under Chapter 11 of the Federal Bankruptcy Code with the U.S. Bankruptcy Court in the Northern District of Ohio in Akron. The Filing Entities collectively have over \$550 million in cash, which they believe is sufficient liquidity to continue normal operations and meet post-petition obligations to employees, suppliers and customers as they come due.

The filing will allow FES to restructure its debt obligations which are estimated at some \$2.1 billion of tax-exempt municipal bonds. Issues are outstanding secured under bank letters of credit and by bond insurance. The insured bonds in the amount of \$427 million are insured by AMBAC. For the uninsured holders, they have lots of exposure as the debt is, as is the case with many pollution control and industrial development bonds, is unsecured. It's amazing how many times this is overlooked by investors.

The situation shows how the power of fracking to develop natural gas resources has so significantly altered the competitive power generation landscape. There is some irony in the fact that some of these plants which are the subject of the FES filing are in the heart of Pennsylvania's fracking region. One could argue that over some period of time, the life of these nuclear and coal generating assets was literally being sucked out from underneath them. It also highlights again the fact that fracking industry has not been taxed more efficiently by the Commonwealth of Pennsylvania, a point we have made many times before.

Posted 04/13/2018 by Joseph Krist

### **Neighborly Insights**

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## **Municipal Bonds Weekly Market Report: Unemployment Remains at 4.1%**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Shorter-term yields were mostly up this week, while longer-term maturities fell.
- Muni bond funds registered first week of outflows after four consecutive week of inflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

by Brian Mathews

Apr 10, 2018

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## **California Eyes Overseas Buyers for \$2 Billion Taxable Bonds.**

April 13 (Reuters) – California will sell \$2.147 billion of bonds in the U.S. municipal market's biggest offering next week, with the state looking to place some of the debt with overseas buyers.

The preliminary official statement for the taxable general obligation bonds includes advisories for countries in Europe and Asia.

"The state has included language in the POS to allow for international investor participation," Marc Lifsher, spokesman for California State Treasurer John Chiang, said on Friday.

Taxable munis have been bought by foreign investors who cannot take advantage of a U.S. tax break given to buyers of tax-exempt munis.

The California deal's \$947 million of new bonds carry maturities in 2020, 2021, 2025 and 2028, according to the POS. Another \$1.2 billion of refunding bonds have term maturities in 2033 and 2038.

Part of the proceeds will advance refund some of the state's outstanding tax-exempt GO bonds.

Federal tax legislation signed into law in December by President Donald Trump ended the ability of muni issuers to refund outstanding bonds beyond 90 days of their call date on a tax-exempt basis.

The bonds, which are rated AA-minus by S&P Global Ratings and Fitch Ratings and Aa3 by Moody's Investors Service, are scheduled to be priced through J.P. Morgan Securities on Tuesday.

Overall, \$7.66 billion of bonds and notes are expected to hit the muni market next week, according to Thomson Reuters estimates.

California's Sacramento County will sell \$588 million of airport system senior revenue refunding bonds through Morgan Stanley on Thursday. The deal includes about \$277 million of bonds subject to the alternative minimum tax.

Topping the week's competitive calendar is a nearly \$315 million Memphis, Tennessee, general improvement bond sale on Tuesday. The bonds carry serial maturities in 2019 through 2048, according to the POS.

The state of Tennessee is selling a two-part \$191 million GO bond issue on Wednesday.

Flows into municipal bond funds were negative for a second-straight week, according to Lipper. Funds reported \$244.7 million in net outflows for the week ended April 11, slightly lower than the \$247.1 million in outflows during the previous week.

April outflows are typically attributed to investors cashing in muni investments to pay their taxes.

Reporting By Karen Pierog; Editing by Dan Grebler

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## **Huge in Korea? California's Bond Bankers See Big Fan Base Abroad.**

- **Banks describe possible investors for state deal next week**
- **Japan, Korea, Taiwan among those that may buy the taxable debt**

California's not just big in Japan. It probably has bond-market fans in South Korea and Taiwan, too.

That's the message from JPMorgan Chase & Co. and Citigroup Inc., the lead underwriters of California's \$2.1 billion taxable debt sale, which is scheduled for April 17. In a presentation to the state treasurer's office, the banks broke down why they think there would be "significant demand" from Asian investors for California's municipal bonds.

Wary of low and sometimes even negative rates on government bonds in their home countries, foreign investors have become a small but growing presence in the \$3.9 trillion U.S. state and local government bond market. By the end of last year, overseas buyers owned a record \$105 billion of the nation's municipal debt, about twice what they held a decade ago, according to Federal Reserve Board data.

That means more competition for U.S.-based firms with mandates to buy California debt — and potentially lower costs for the state.

For Korean life insurers investing in dollar-denominated debt, their "sweet spot" is in maturities between 20 and 30 years, according to the JPMorgan and Citi presentation dated March 14 and released to Bloomberg News this month. In Taiwan, where California general obligations have been

“one of the most favored credits,” investors would likely prefer long duration with maximum yield, it said.

Hong Kong firms would prefer short to intermediate maturities, the banks said, noting that life insurers there have bought state general obligations in the 15-year range, while the three to 10-year range has been targeted by sovereign fund and central bank buyers.

Meanwhile, Japanese securities firms have bought taxable Build America Bonds in the 20 to 30-year range, and some asset managers are picking up taxable municipals in the 15 to 30-year range, JPMorgan and Citi said.

Middle East investors, who were included among the Asian countries, may be interested in five and 10-year maturities, the presentation showed.

The U.S. banks didn’t exclude Europe: although investors there have been “less active recently” in municipals, large firms are already familiar with California, they said. British life insurers have recently bought the state general obligations, and Nordic investors “have historically been constructive” on such debt. Meanwhile, Swiss life insurers are “struggling to meet yield targets” in locally-denominated securities.

Jessica Francisco, a spokeswoman for JPMorgan, and Scott Helfman, a spokesman for Citigroup, declined to comment.

California in the past has seen interest from foreign investors, said Deputy Treasurer Tim Schaefer by telephone.

“It offers any investor the opportunity to diversify his or her portfolio, pick up a little bit of yield, and buy a name that’s believed by many to be quite liquid,” he said.

## **Bloomberg**

By Romy Varghese

April 13, 2018, 7:11 AM PDT

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### **[FirstEnergy Unit's Collapse Casts Pall Over Nuveen Muni Holdings.](#)**

- **In February, firm held about half of unit’s unsecured munis**
- **About a third of bankrupt power company’s munis held by Nuveen**

The bankruptcy of an Ohio power company is reverberating in Chicago, home to one of the biggest money managers in the \$3.9 trillion municipal-bond market.

Nuveen Asset Management, which oversees about \$134 billion of municipal-debt investments, as of February held about half of the \$1.5 billion of unsecured bonds that FirstEnergy Solutions Corp. — a unit of FirstEnergy Corp. — issued through government agencies in Pennsylvania and Ohio, according to holdings information posted on Nuveen’s website. The company reported owning another \$300 million of FirstEnergy Solution’s secured municipal bonds.

The electricity producer’s bankruptcy has left the Chicago-based firm exposed to defaults — a rarity in a market dominated by state and local governments with the power to raise taxes. But agencies

are also allowed to sell tax-exempt bonds on behalf of corporations for projects like waste disposal facilities, power plants or airport terminals, a far-more riskier niche that's previously been affected by bankruptcies.

Kathleen Cardoza, a Nuveen spokeswoman, declined to comment. Tom Mulligan, a spokesman for FirstEnergy Solutions at Sitrick & Company, declined to comment.

Akron, Ohio-based FirstEnergy Solutions sought court protection from its creditors on March 31, listing more than \$3 billion in unsecured claims, after unsuccessfully pushing for U.S. Energy Secretary Rick Perry to extend it a lifeline by declaring a grid emergency that would guarantee profits for ailing coal and nuclear power generators. Parent company FirstEnergy Corp. wasn't part of the bankruptcy.

FirstEnergy Solutions has about \$2 billion outstanding municipal bonds. Some have already defaulted: One of its subsidiaries failed to make a payment due this month on bonds issued through Beaver County, Pennsylvania's industrial development authority. On Tuesday, FirstEnergy Solutions-backed bonds sold through an Ohio agency and due in 2020 traded for about 26 cents on the dollar, down from about 37 cents at the beginning of January.

The debt held by Nuveen is a fraction of its municipal-bond holdings or the approximately \$970 billion it has under management overall. Nuveen's High Yield Municipal Bond Fund held about \$273 million of FirstEnergy Solutions unsecured debt, about 1.5 percent of the total securities in the fund. The fund has lost 0.8 percent this year, compared to a 0.8 percent gain for the Bloomberg Barclays high-yield municipal index.

Electricity generators across the U.S. have been pummeled by low power prices as stagnant demand, cheap natural gas and surging development of wind and solar have squeezed profits. The trend is especially pronounced in eastern Ohio and western Pennsylvania, where the Marcellus shale natural gas formation lies, causing regional prices to be lower than the rest of the country.

Few have embodied the struggle as much as FirstEnergy Solutions, which owns a fleet of coal and nuclear plants in Ohio and Pennsylvania. It has closed four coal-fired generators since 2012, reducing its operating capacity by almost 20 percent.

## **Bloomberg Markets**

By Martin Z Braun

April 10, 2018, 11:26 AM PDT

— *With assistance by Jim Polson, Danielle Moran, and Amanda Albright*

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### **[Pimco, Long Shy of Puerto Rico, Bought In. Then the Bonds Soared.](#)**

- **Firm's investments came before debt rallied on fiscal plans**
- **In November, as prices hit new lows, bonds grew attractive**

Pacific Investment Management Co. made a well-timed bet on Puerto Rico bonds.

The firm scooped up the bankrupt island's debt after prices tumbled amid concern over the

devastation caused by Hurricane Maria, leaving parent company Allianz SE with an almost \$540 million stake, according to the most recent regulatory disclosures. That made it primed to benefit late last month, when the bonds rallied over two days after Governor Ricardo Rossello offered a more sanguine outlook for the recovery. The prices of some securities have doubled since December.

Pimco's strategy may have been to hold the bonds temporarily, or it could be interested in joining the chorus of Puerto Rico bondholders who are sticking it out in the island's record-setting bankruptcy — hoping for a better recovery than the market's pricing in.

Agnes Crane, a spokeswoman for Pimco, declined to comment.

Unlike hedge funds that plowed into high-yielding Puerto Rico bonds, incorrectly wagering that Congress wouldn't give it the power to discharge debt in court, Pimco mostly steered clear as the island's financial challenges grew.

In May, when Puerto Rico filed for bankruptcy, Pimco analyst Sean McCarthy said bondholders likely faced deeper losses than trading prices suggested. General-obligation debt was trading at about 60 cents on the dollar at the time.

Then Maria arrived. As the territory contended with devastating damage, some investors fled for the exits, causing prices to tumble. By November, when prices had dropped below 30 cents, David Hammer, Pimco's head of municipal bonds, said they were looking more attractive.

The Newport Beach, California-based firm boosted its holdings of Puerto Rico securities by the end of December. Of the debt held by Allianz, the bulk was purchased by Pimco funds, according to data compiled by Bloomberg. More than \$400 million of the securities were bought in the fourth quarter of 2017, the data show.

The firm held \$115.3 million of the island's general obligations due in 2035, the most actively traded security, as of Dec. 31. All but \$869,000 of that was bought in the last three months of 2017. That bond, with an 8 percent coupon, traded this year for as much as 45 cents on March 26, up from a low 20.75 cents on Dec. 19. It sold at an average 41.7 cents Thursday.

The run up came after Puerto Rico increased its estimated surplus, which may mean better recoveries for bondholders. Rossello's latest fiscal plan projects a \$6.3 billion surplus through fiscal 2023, before paying debt service costs.

The large rally in Puerto Rico debt stands out from the company's other fixed-income investments, which have mostly generated returns from smaller moves because of the low volatility in the bond market, Pimco Chief Executive Officer Emmanuel "Manny" Roman and Chief Investment Officer Dan Ivascyn said in an interview in early April at the company's headquarters.

"Some Puerto Rican bonds went up about 100 percent," Ivascyn said.

"So we have exceptions where you hit a great home run," Roman added.

Some are questioning the rally's stamina. The commonwealth has a history of missing budget projections and Puerto Rico's federal oversight board has yet to certify the fiscal turnaround plan. The panel has asked the governor to impose cuts to retirement benefits, which Rossello has refused to endorse.

Pimco's \$73 billion Global Investors Series PLC fund holds \$315 million of Puerto Rico bonds bought in the fourth quarter, which included general obligations and power authority debt, the data show.

The biggest chunk was \$109 million of the bonds due in 2035.

The \$111.9 billion Pimco Income Fund, the largest actively managed fixed-income fund, also held \$98.2 million of general obligations as of Dec. 31. Its \$1 billion High Yield Municipal Bond Fund held \$61.7 million of Puerto Rico securities, including general obligations, power authority and sewer debt.

## **Bloomberg Markets**

By Michelle Kaske

April 13, 2018, 6:16 AM PDT Updated on April 13, 2018, 8:29 AM PDT

— *With assistance by John Gittelsohn*

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### **[What Detroit Tells Us about Conventional Financing and Economics of Revitalization.](#)**

The continuing revitalization of downtown Detroit is an international story. It is hard to believe that the General Motors bankruptcy was less than a decade ago and the city's bankruptcy was less than five years ago. The region that once served as a prime example of a Rust Belt manufacturing economy subject to heights of the late-2000s recession is now in the midst of an urban renaissance that has not only transformed the Motor City's skyline, but also completely changed the way people think about Detroit. The city is now one of the hottest national markets for stadiums, office, retail, residential, industrial, restaurants, and mixed-use development. With all of this activity, a long list of developers and investors are quite literally banking on Detroit.

One of the hidden economic dimensions behind the renaissance is the evolving financing dynamics behind the developments that are both making headlines and raising the bar.

According to the U.S. Bureau of Labor Statistics, unemployment in the Detroit area (as of February 2018) has dropped from 4.8 percent to 4.2 percent over the past year alone. As more people reenter the workforce, the need for more and better housing becomes essential.

Understanding how and why groundbreaking multifamily communities are securing the financial commitments required to become reality is an important first step in appreciating how a city's economic and development landscape evolves throughout the course of an accelerating growth cycle.

### **Making Conventional Work**

At the intersection of Washington Boulevard and Park Avenue, construction is underway on City Club Apartments, a 288-unit apartment and penthouse community. The \$70 million community features 13,000 square feet (1,200 sq m) of retail space, including a restaurant, theater, gourmet market, and specialty pet store. The apartments and penthouses, which range in size from 400 to 1,700 square feet (37 to 158 sq m), will provide 24/7 concierge service and resort-caliber amenities that rival those found at some five-star hotels. It is appropriate, given the fact that the development is on the site of the iconic Statler Hotel—originally built in 1915 and demolished by the city in 2005. Construction began on the development in fall 2017 and it will be completed this fall.

While City Club Apartments CBD Detroit is the first ground up, mixed-use high-rise in Detroit in more than 30 years, what makes the development particularly noteworthy in the context of Detroit's reemergence is the fact that it is being conventionally financed.

The majority of Detroit's new multifamily developments have received U.S. Department of Housing and Urban Development (HUD) funding—HUD serves as both the construction lender and the permanent lender—in conjunction with a range of grants and other alternative/nontraditional financing mechanisms. Conventional financing—through traditional construction lenders, commercial banks, pension funds, or a life insurance company, and securing equity through wealthy individuals and families, pension funds, life insurance companies, or real estate investment trusts—is a lagging indicator: a sign of a healthy development climate that often becomes reestablished only once a city is well on its way to an economic recovery.

## **Numbers and Timing**

So why are we the first significant mixed-use development that has not sought to take advantage of those extra layers of incentives? Part of the answer is simply timing. Downtown Detroit's rental market has been on the upswing—a trend that really picked up in 2014, when the city came out of bankruptcy protection. Today, rents are around \$2.25 to \$2.50 per square foot (\$24.22 to \$26.91 per sq m), an important number for conventional financing to work.

Once the rental numbers work, the next challenge is the ability to get high-quality asset valuation. That poses a significant challenge in a market where everything is either “on sale” because it needs so much work, or the revitalization is so new that there are no comparables available in the market.

Detroit is not a merchant builder city and that is reflective of its low turnover rate of performing assets. Consequently, developers must identify lenders that are able and willing to get creative. When we built the first market-rent high-rise in Ann Arbor, Michigan, in more than 25 years, US Bank and Freddie Mac used comps from another city. But the bank—and the credit committee at that bank—obviously had to be willing to do that. It takes leadership and vision to make it all work.

In other words: while the market dictates financing to a large extent, you also need a developer willing and able to push for conventional financing—and financial institutions and business and credit committees that are willing and able to make decisions based on excellent fundamentals.

Our goal from day one was to prove that it could be done conventionally.

We made the case for conventional financing to Mayor Duggan, City Council, and the Detroit Economic Growth Corporation. They were confident that the market had matured enough and that rents were strong enough to make the math work for conventional financing while also ensuring that 20 percent of the apartments would be affordable.

While City Club Apartments is using available brownfield and tax abatement programs, those are incentives that are typical for urban developments. Civic leadership is also an important and often underappreciated factor in the financing equation. The political and economic dysfunction we saw in Detroit under the last administration just did not inspire trust or confidence—and that has an enormous impact on the availability of financing. From a leadership standpoint, the climate in Detroit today is both positive and highly creative.

## **A Familiar Pattern**

This progression is typical of the upward evolution of the Midwest. Cities like Pittsburgh and Cincinnati were both in a similar place five to six years ago, Minneapolis in the early 2000s, and



even Chicago back in the late 1980s and early 1990s. Indianapolis, Kansas City, Cleveland; the list goes on. And Detroit is no different.

For those early developments in a recovering market, the lack of both rent and sales comps is a challenge. That creates a financing funnel where developers often rely on HUD loans, grants, and other incentives, which, in turn, puts more pressure on the equity side of the equation in conventional deals. Having to come up with 25 to 35 percent cash/grants/incentives equity instead of 15 to 20 percent means a lot of deals simply never get done. These are particularly turbulent waters for younger and smaller firms to navigate.

## **Leaning into It**

Civic officials in Detroit and elsewhere are more strategic and proactive today with respect to financing. Cities should leverage alternative financing tools strategically to help those neighborhoods that are lagging somewhat behind the redevelopment curve. In Detroit, for example, this approach would push for conventional financing for projects in Detroit's CBD and Midtown areas, while "next" neighborhoods like Livernois, Corktown, Grand River, and Eastern Market would be the natural beneficiaries of grant monies or alternative financing tools.

In order to fuel Detroit's momentum, developers and civic officials in Detroit need to continue to encourage more banks, pension funds, and life insurance companies to pay attention to and participate in investing in the city's renaissance. Getting more institutions involved helps disperse the risk. Banks have lending limits, and they are going to put only so much money into any one city—no matter how much positive economic and development momentum has been established.

## **Urban Land Magazine**

By Jonathan Hotlzman

March 26, 2018

*Jonathan Holtzman is the founder, chairman, and CEO of City Club Apartments, an entity that owns more than 10,000 apartments in 30 communities nationwide with a combined real estate value exceeding \$2 billion. City Club also has an additional \$500 million invested in new communities in various stages of development and construction.*

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## **[How Tax Reform Hurt Municipals in Q1.](#)**

Municipal bond performance in the first quarter of the year was clearly hurt by tax reform, according to Peter Hayes, head of BlackRock's municipal bond group.

Speaking Wednesday at a fixed-income roundtable event for reporters, he said that the muni market reacted too early and too strongly when it came to the new tax legislation.

"That totally took out the seasonal aspect of munis," he said, "We are now down roughly 30% in terms of volume and the net negative return we saw this first quarter was the worst it's been since 1996."

Hayes added that demand continues to be very strong and so far, there has been little change from retail investors due to tax reform, though the market was still going through a discovery period.

"The market is trying to settle in between the new tax rates," he said. "There is still a lot of value in municipals but the market is holding back right now."

Hayes said it is still too early to tell how the tax changes are affecting holdings of banks and casualty and insurance companies, but that the asset class looks attractive despite the rising interest rate environment.

"There is plenty of income to be had in this market and it does do well when rates rise, but curve positioning will be very important," he said.

#### Secondary market

Municipal prices ended mostly flat on Wednesday after equities rebounded from earlier in the day and the market priced the \$3.2 billion New Jersey tobacco deal, which was oversubscribed, according to a New York trader.

"It was extremely attractive," he said of the tobacco deal, which was priced with a 5% coupon in 2046 to yield 4.90%.

"The market opened up a little stronger following equities, and the deals today seemed to go OK," he said. "Equities are back in the green and as equities caught a bid, we got a little cheaper."

The New York Municipal Water Finance Authority deal also caught some attention from investors, but "all of the focus was on the New Jersey tobacco deal, which was like 10 times oversubscribed," the trader estimated.

The trader expected the market to stay steady heading toward week's end, but said upcoming economic reports could put activity on hold.

"You've got a fairly well-focused employment number on Friday, so I think it will start to get quiet [on Thursday] as everyone waits for that number," he said.

#### Primary market

Jefferies priced and repriced the New Jersey Tobacco Settlement Financing Corp.'s Series 2018A senior and Series 2018B subordinate tobacco settlement bonds for institutions after holding a one-day retail order period.

Siebert Cisneros Shank priced and repriced the New York City Municipal Water Finance Authority's \$426.14 million of Fiscal 2018 Series EE water and sewer system second resolution revenue bonds for institutions after holding a one-day retail order period.

SCSCO also priced the Bexar County Hospital District, Texas' \$242.02 million of Series 2018 certificates of obligation.

Citigroup priced and repriced the San Diego County Regional Transportation Commission's \$537.48 million of Series 2018A subordinate sales tax revenue short-term notes.

In the competitive arena on Wednesday, Howard County, Md., sold \$129.89 million of Series 2018A consolidated public improvement project tax-exempt bonds.

Citigroup won the bonds with a true interest cost of 3.0611%.

Since 2008, the county has sold about \$2.45 billion of bonds with the most issuance in that time occurring in 2017 when it sold \$644.6 million of debt. The county sold the least amount of bonds in

that period in 2012 when is offered only \$57.3 million of securities.

Late Tuesday, the Board of Trustees of the University of Illinois announced it was postponing Wednesday's sale of Series 2018A and 2018B auxiliary facilities system revenue bonds while it "considers a change in accounting principles brought about by the adoption of GASB Statement 75. In recent days, the university learned that its interpretation of GASB 75, affecting fiscal year 2018 reporting and forward, varied from that of the State of Illinois Comptroller's Office. After the board has reviewed, analyzed and adopted any required changes in accounting principles, it intends to resume the sale of the bonds."

## **The Bond Buyer**

By Christine Albano, Chip Barnett & Aaron Weitzman

April 04 2018

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### **[Fitch Releases Revised U.S. Public Finance Tax-Supported Rating Criteria.](#)**

**Fitch Ratings-New York-03 April 2018:** Fitch Ratings has released an annual update to its ["U.S. Public Finance Tax-Supported Rating Criteria."](#) The revised criteria, which replace criteria dated May 31, 2017, include changes related to the analysis of moral obligation pledges and state dedicated tax bonds, as discussed in further detail below. Fitch expects these changes will affect fewer than 10 ratings. Other revisions to the criteria simply clarify certain aspects of our approach for U.S. state and local government credits.

The ratings that may be affected by the criteria changes will be reviewed in the near term..

#### **Moral Obligation Analysis Change (Appendix D of revised criteria)**

Under the revised criteria, all Fitch ratings on moral obligations will be notched down from the credit quality of the moral obligation provider. Formerly, the moral obligation enhancement was recognized either based on this "top down" approach or by notching up from the underlying security rating, depending on the nature of the transaction. This change generally aligns to the framework used for appropriation-supported debt, but with somewhat wider notching from the moral obligation provider's general credit quality as expressed through its Issuer Default Rating (IDR). Moral obligation debt will generally be rated three notches below the provider's IDR, although moral obligation debt that is currently rated two notches below the provider's IDR based on identified strengths is not affected by the criteria change.

The change to the analysis of moral obligations is expected to result in upgrades to a small number of credits.

#### **State Dedicated Tax Bond Analysis Change (pages 29-31 of revised criteria)**

The revised criteria specify more limited situations in which a state dedicated tax security can be rated without regard to the state's general credit quality. Additionally, the revised criteria now include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state IDR, can nonetheless be treated as stronger than but still linked to the state's general credit risk. In these cases, Fitch will limit the rating on most state dedicated tax securities to no more than three notches above the state's IDR. For either approach to be applicable, dedicated revenues must be structurally insulated from the state's general financial operations.

As there is no bankruptcy framework available to U.S. states, evaluation of the prospects for varying security structures at a time of fiscal distress is by necessity somewhat judgemental. Absent a bankruptcy framework, the primary limit on state action and source of protection for state bondholders is the contract clause of the U.S. constitution and equivalent clauses in state constitutions. Although contract clause protections under federal and state constitutions restrict the ability of a state government to impair its obligation to pay bondholders from dedicated tax revenue, the judicial interpretations of the contract clause indicate that it does not impose an absolute constraint where a state confronts a fiscal emergency. In such a situation, one of the key legal tests of whether a contract can be impaired is whether the impairment is necessary and reasonable.

Given this legal backdrop, under the revised criteria, the only cases in which Fitch can rate a state dedicated tax bond distinct from and without regard to the state IDR are situations where Fitch believes that the nature of the dedicated revenue stream or the legal structure render remote the possibility of a successful impairment argument. This approach is similar to Fitch's rating framework for local government dedicated tax bonds. The security must be very clearly segregated from state operations and have no nexus with general state functions. Examples include bonds issued to fund state unemployment compensation and worker's compensation systems.

In other cases, Fitch believes that the state dedicated tax security enhances the prospects for full and timely payment but does not have a sufficiently strong non-impairment argument to allow for a rating determined without regard to the issuer's general credit quality. The revised criteria cap the rating on such securities at no more than three notches above the state's IDR, indicating that they are more vulnerable to an assertion by the state that impairment is necessary. The degree of allowable notching is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the better).

The option to rate a dedicated tax security above but linked to the government's IDR can only be used for bonds issued by U.S. states. Fitch does not apply this approach to debt issued by local governments because expectations for the likely performance of local government security structures at times of fiscal distress are guided by Chapter 9 of the U.S. Bankruptcy Code. The automatic stay under Chapter 9 applies with few exceptions to all tax-backed debts issued by a local government. A local government security's exposure to the government's general credit risk is therefore predictable under the provisions of the Code: the pledged revenues are either subject to the automatic stay, and the dedicated tax rating is capped by the IDR, or they aren't, allowing for a dedicated tax rating distinct from the local government's IDR.

This criteria change represents a refinement of Fitch's approach to rating state dedicated tax bonds and is a continuation of our ongoing focus on legal security in relation to issuer ratings. The change is expected to result in downgrades to a small number of credits.

Fitch's approach to rating dedicated tax bonds issued by U.S. local governments is unchanged in the revised criteria.

Bankruptcy risk to local governments generally precludes dedicated tax bonds issued by that government from being rated higher than the entity's IDR, regardless of the strength of the security. Fitch considers four exceptions where a dedicated tax bond rating above the IDR is possible: (1) bondholders are granted a lien on and pledge of revenue that Fitch concludes would be considered special revenues under Chapter 9 of the U.S. Bankruptcy Code; (2) the debt is issued pursuant to a specific state intercept program; (3) the debt is structured as a securitization specifically authorized by state law; or (4) Fitch can identify the likelihood of enhanced recovery prospects.

Fitch's updated "U.S. Public Finance Tax-Supported Rating Criteria" is available at 'www.fitchratings.com' or by clicking on the link above.

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## **[Criteria FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Special Assessment Debt.](#)**

On April 2, 2018, S&P Global Ratings published its revised criteria for Special Assessment Debt. The updated framework is designed to provide additional transparency and comparability to help market participants better understand our approach to assigning ratings to U.S. special assessment districts, to enhance the forward-looking nature of these ratings...

[Continue Reading](#)

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## **[ESG: It's About Risk Management.](#)**

An increasing number of investors are interested in strategies that offer opportunities to make positive impacts on environmental, social and governance (ESG) issues that they care about while also earning attractive financial returns. Investors who consider the impact of a security issuer's ESG-related practices and policies gain a more complete view of the risks posed by poor governance. By recognizing these sources of risk, they increase their likelihood of achieving the positive outcomes they seek.

We believe impact investing plays a critical role in helping create a world where both people and communities can flourish. Thriving communities depend on clean air and water, access to quality education and equal protection under the law. Unfortunately these public goods are often taken for granted and only noticed when they fail, such as when the mismanagement of Flint, Michigan's water system exposed 100,000 people to potential poisoning. Flint's fall from industrial powerhouse to one of the poorest communities in America is about much more than just economics – it was a failure of governance and stewardship of public goods. This is one of many examples of how poor

governance can lead to environmental and social challenges that face communities today.

Even more frequently overlooked than the role that environmental, social and governance (ESG) factors play in a community's quality of life is the role that they play in managing risk in investment portfolios. While traditional investment analysis has paid relatively little attention to these non-financial sources of risk, we believe that failure to integrate analysis of ESG factors into the investment decision-making process overlooks the potential effect of these non-financial factors on investment performance, particularly over the long term.

Unethical or neglectful behavior by a government or a company in an area of environmental, social or governance concern can harm those who invest in that government's bond or company's stock as well as harming the environment or community where a company or government is located. Investors in these communities and companies often underrate the seriousness of these risks to their investment process.

### **Risky Business**

Each asset class creates its own set of risks and opportunities. Sometimes the risks for investors from ESG-related issues are direct and obvious. Volkswagen's use of software in its diesel cars to cheat on emission tests is an example of poor corporate governance leading directly to environmental and financial harm. That failure of governance allowed elevated levels of unhealthy oxides of nitrogen emissions into the air as well as exposing the company and its shareholders to potential lawsuits and fines by regulators. Unsurprisingly the company's stock price has suffered. The harm resulting from poor governance also extended to many unrelated areas of the automotive industry, as other companies found themselves facing increased scrutiny of the sector from regulators.

Not all ESG-related risk arises from lack of governance. A far more common outcome is the underestimation of a security or sector's long-term risks and the subsequent overestimation of its value. By not considering non-financial risks that may take years to materialize, analysts implicitly place greater emphasis on the short-term financial circumstances of a company or government when determining the value of a potential investment. That focus on an issuer's attractive short-term financial prognosis may be reflected in stock or bond prices that are higher than they would be if the significant long-term non-financial risks facing the issuer were understood and properly priced in.

### **Turning Impact Interest Into Implementation**

The number of investors who are interested in making a positive impact with their investment portfolio continues to grow every year. With that growth we get closer to a world where impact investing and investing are the same thing. So how does the investment community turn this momentum into implementation? It starts by each investor understanding that EVERY portfolio makes an impact. Some investors want their portfolios to make an impact on environmental issues such as fighting climate change or on social issues including ensuring gender diversity on corporate boards. Others want the impact to be maximizing return on investment. While investment goals and impact are unique to each client, all share in the need to manage risk with relevant data. All investors want to be fully informed and aware of the risks they face with each investment. Are you ignoring any risks in your investment portfolio that may affect your outcomes? Using ESG Integration to solidify risk metrics is timely for all types of investors everywhere.

Disregarding valuable data for environmental, social and governance considerations inevitably increases the potential risks in a portfolio. Integrating analysis of these factors into the investment decision-making process creates a more accurate understanding of risk as well as a deeper understanding of each client's unique impact goals. Integration of these factors leads to more informed investment decisions and impacts for both advisors and individual investors strengthens

client relationships, and builds resilient communities.

## **ESG Around The World**

As we work to push ESG integration and impact investment principles into the mainstream of investment philosophies in the U.S., we can look abroad to see what such an investment landscape could look like. International investors establish the need for ESG integration upfront by asking asset managers and investment advisors how they are integrating these factors into investment frameworks. That long-standing interest, combined with regulations such as the UK's Stewardship Code has created an environment in most developed markets where investors expect managers to not just demonstrate familiarity with the role that ESG factors play in investing, but to have integrated management of these factors into the way they manage portfolios. Since 2006, the United Nations Principles for Responsible Investment have codified the principle that Environmental, Social, and Governance ("ESG") factors can have a meaningful impact on the risk and return profile of fixed income investments. Meanwhile, interest among U.S. investors in these approaches to portfolio management has been slower to develop but is now rising quickly.

## **What it Means for Muni Bonds**

While many ESG integration strategies focus on equities and use proxy-voting rights to press firms to improve their policies, ESG integration should be an important part of fixed income investment decision making as well. Indeed, selecting municipal bonds for inclusion in a portfolio requires implicit consideration of at least some environmental, social and governance factors. Munis exist due to the need to fund public goods and while traditional bond analysis looks primarily at credit risk, the quality of an issuer's governance should be an integral part of that analysis. Sustainable bond issuers typically exhibit best practices in the areas of timely and transparent budgeting, strong financial controls, good management of pension liabilities and emphasis on delivering essential services such as school construction and water and sewer systems. Incorporating these issues enables a more comprehensive understanding of broader risk factors over time and a better understanding of whether a bond's pricing accurately reflect risks over the bond's full duration. Municipal finance provides a critical window into important ESG-related risks such as public health, safety and the scarcity and sustainability of natural resources and human capital.

## **So how can you help?**

Impact-oriented investors want their investments to make positive contributions to the places and causes that they care about. All investors want the ability to utilize relevant data to be informed of all the risks they face while finding undervalued investment opportunities. The great news is that ESG integration is a powerful tool that help guide decision making for each investor today.

We believe investment advisors play a critical role in helping build a better world by being leaders in advancing the impact investing movement. Do you have questions about incorporating ESG analysis into your investment process? Send us an email at [investors@neighborly.com](mailto:investors@neighborly.com) or [sign up here](#) to learn more.

Posted 04/04/2018 by Alex Laipple

## **Neighborly**

This post was co-authored by Alex Laipple and John Sparks.

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## **Neighborly Issuer Brief: How Munis Finance Broadband.**

### **How Munis Finance Broadband**

The accelerated development of rural broadband infrastructure is one potential outcome of a federal infrastructure program. When it comes to any discussion of rural infrastructure needs, no matter where the forum or who the messenger is, what comes through loud and clear – even in analog – is the demand for high-speed internet access as a key to rural development and revival. It is important enough that some municipalities are not waiting for a federal answer.

One example is Fort Collins, CO. The City of Fort Collins, at the direction of City Council and voters, is moving forward with building and implementing high-speed next-generation broadband to the entire community. This will take 3 to 4 years and include the entire growth management area. The city is aiming to provide that high-speed connectivity for \$70 per month or less, as well as a less expensive internet tier of service. Comcast and Century Link currently provide service in the city.

While the issue is being debated, it's evident that the municipal bond market has been a source of financing for local broadband since 2000. At least 8 municipalities and the U.S. Virgin Islands have issued bonds for this purpose.

Typically, bonds have been issued to provide funding for the equipping of local broadband networks within the existing infrastructure maintained by local electric systems. The issuers tend to be owners of their own existing electric distribution systems. The bonds are generally payable from the net revenues of the local cable system and are sometimes supported by an ad valorem tax pledge in the event that cable/internet revenues are insufficient.

Another method of financing mirrors the experience of financing rural electric distributions — the establishment of cooperatives for that purpose. Much like rural electric coops, rural communities have banded together to create a critical mass sufficient to support a debt financing. The RS Fiber coop is an entity made up of 17 rural Minnesota communities which issued bonds through one of the member communities in 2015. That structure obtained a stand-alone investment grade bond rating so the concept is viable from that standpoint and we could see more of these financings in the future.

For one group of localities in Vermont, broadband is the topic du jour. Central Vermont Internet – which is up for a town meeting vote in Barre City, Barre Town, Berlin, Calais, East Montpelier, Marshfield, Middlesex, Montpelier, Northfield, Plainfield, Roxbury, Williamstown and Worcester – would bring fiber optic capability to these places as they work to keep their localities economies up to 21st Century standards. Collective action such as this could easily be the digital equivalent to the joint action agency undertakings that maintained electric service in the last quarter of the 20th Century.

As the Federal government is likely to be slow-if at all in 2018-to put forward an infrastructure bill, issuers should take note of projects elsewhere and learn from the successes.

### **Gas Tax Increases Possible in Florida**

There may not be support for increases in the federal gas tax at the federal government level — which sits at 18.4 cents per gallon, hasn't been raised since 1993 and is not subject to inflation — but there are efforts being made to find out whether that sentiment is truly felt at the local level. The latest jurisdiction to consider an increase is in Florida. Lake County voters will get a chance this fall to vote on a proposed nickel-per-gallon gas-tax to finance rehabilitation of existing roads. The



County estimates that 75 of 1,391 miles of county-maintained roads are categorized as severely deteriorating. The cash provided by the tax, if voters approve it, would help cover the cost of repaving 65 of those miles.

The extra tax would start in January 2020 and generate an estimated \$6 million a year from residents and out-of-county drivers. Two-thirds of the money, about \$4 million, would go to the county and the rest would be divided by Lake cities. If approved, Lake would join Osceola, Polk and Volusia counties in utilizing the maximum 11 cents a gallon in local-option gas taxes allowed by law. The average motorist purchases about 500 gallons a year per car, according to the U.S. Department of Energy. That means a driver would pay about \$25 more per year if the tax is approved. The local-option 6-cent gas tax already applies to all fuel including diesel, but the proposed extra nickel in taxes wouldn't apply to diesel fuel.

As issuers and their taxpayers consider options for raising revenues for important infrastructure, these are case studies that may help guide government officials' decision-making processes and gauge voter sentiment.

### **Another Cyber Attack Hits a City — This Time Atlanta**

Atlanta is the largest American city to see its computer systems compromised by malware from malevolent interests. The hackers recently asked the city for \$51,000 in ransom to unlock data that was encrypted during the attack. Officials faced the same choice all in that position face - give in to the criminals and have their systems restored quickly or address the issue on a machine-by-machine basis.

The effect has varied. Court dates have had to be postponed and the ability to pay fines and bills has been compromised. The city's 911 system was not affected and operations at Hartsfield-Jackson Airport continued. The airport did disable its WiFi system as a precaution and its parking operation was compromised.

The city is fortunate in that operating systems do not appear to be the target. Rather the focus was on administrative systems leading to handle processing of justice system paperwork. You can get water from the city water system but you can't pay your bill when due. According to The New York Times, SamSam, the ransomware group behind the Atlanta attack has already extorted more than \$1 million in ransoms this year.

City officials have not disclosed the extent to which servers for backing up information on PCs were corrupted or what kind of information they think is unrecoverable without paying the ransom. Atlanta police returned to taking written case notes and have lost access to some investigative databases.

What many of these attacks have in common is that the attacked systems are internet based. As the cloud becomes more and more ubiquitous, more and more urban infrastructure, including smart city systems, go online. Thus, many are vulnerable to the resulting delays, errors, and inconveniences associated with these attacks.

So the real question is does this constitute a material event or risk which should be disclosed to investors, current or prospective? The question is not whether cyber risk is such an event under current MSRB reporting requirements. Rather it is a question of common sense. If a municipality is vulnerable to a risk from the outside that could compromise its ability to deliver services, keep accurate records, and collect and account for revenues, is that not something to which investors are entitled to be informed and allowed to make their own independent assessment of from the perspective of investment and credit risk?

## Trade War Will Hurt Midwestern States

These are the 10 largest pork-producing states: Iowa – \$4.2 billion; Illinois – \$1.54 billion; Minnesota – \$1.47 billion; North Carolina – \$1.46 billion; Indiana – \$1.04 billion; Oklahoma – \$952.7 million; Missouri – \$791 million; Nebraska – \$657.5 million. Of total pork exports, 2% of U.S. production goes to China. Predictions are that combined with other factors (energy costs, feed costs) hogs are now expected to average about \$48.50 this year with cost now estimated near \$53. Losses of \$4.50 per live hundredweight or about \$12.50 per head are expected.

So income taxes derived from the agricultural sector will clearly be positioned to decline. This will complicate existing budget strains in Iowa, Oklahoma, and Nebraska. There is an impact from the new trade policies, especially in the rurally based states with smaller less diverse economies.

According to the USDA, California has remained the top agricultural export earnings state since 2000, with Iowa, Illinois, Minnesota, Nebraska, and Texas near the top of the list in any given year. The largest exporters of animal products in recent years have been Iowa, the largest pork producer, as well California, the largest dairy supplier, and Texas, one of the top beef exporters. The top three exporters of plant products have consistently been California, Illinois, and Iowa. California is the top exporter of a range of vegetable, fruits, and nuts, whereas Illinois and Iowa are top exporters of soybeans, corn, and feeds. So the new Chinese tariffs on fruits will bite in these areas.

Posted 04/05/2018 by Joseph Krist

This Issuer Brief is brought to you by Court Street Group and Neighborly.

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## **Muni Bond Leverage: Risk vs. Reward of Tender Option Bonds.**

**Municipal bond funds are a very popular investment that provides its shareholders with a diversified portfolio of municipal bonds.**

Typically, investors use muni bond funds to provide tax-free income with a secondary goal of preservation of capital. Muni bond funds can be very specific in their selection of portfolio holdings, like only of a certain investment grade from a specific state or maturity. Therefore, muni bond funds have been known to be a relatively conservative for the average investor.

However, some municipal bond funds have implemented leverage within the portfolio in an effort to increase returns, whether in the form of distributions or through total return. It is to be noted that

with more leverage comes added risk to the portfolio and its shareholders. Let us explore this concept in more detail in the following sections.

### **Tender Option Bonds Structure**

A way for municipal bond managers to acquire leverage is by using [tender option bonds](#) (TOBs). Tender option bonds are a structured product held in the form of a trust fund. The municipal bond manager deposits some of its high-quality municipal bonds to fund the tender option bond trust. Then the TOB trust issues two types of securities: short-term floating rate and inverse floating rate investments. The short-term floating rate investments are then sold to money market funds that are looking for high-quality short-term investments. In exchange for the short-term investments, the money market funds pay cash directly back into the muni bond fund. This can be better understood from the flowchart shown below.

[Continue reading.](#)

**municipalbonds.com**

by Brian Mathews

Apr 05, 2018

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### **[Municipal Bonds Weekly Market Report: GDP Surpasses Expectations](#)**

**MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.**

- Short-term yields all up this week, while longer-term maturities fell.
- Muni bond funds saw its fourth week of inflows.
- Be sure to review our [previous week's report](#) to track the changing market conditions.

[Continue reading.](#)

**municipalbonds.com**

by Brian Mathews

Apr 03, 2018

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### **[U.S. Water Systems Capital Spending to Rise 11 Percent by 2027: Report](#)**

NEW YORK — Capital expenditures on U.S. municipal water, wastewater and stormwater infrastructure will rise 11 percent in the next 10 years, in part to cope with poor water quality, environmental mandates and crumbling systems in some areas, according to a report on Tuesday.

Total capital spending in the U.S. municipal water sector is projected to exceed \$683 billion by 2027, to \$72.2 billion annually from \$64.9 billion this year, the report from Bluefield Research, which

focuses on the water sector, found.

“The public’s growing concerns about U.S. water infrastructure are real and increasingly reflected in utility planning documents,” Bluefield’s research director Erin Bonney Casey said in a statement.

Cities have a wide range of capital needs, from manhole covers and fire hydrants to information technology, she said. The report analyzed planned spending by water systems in 100 major cities.

In many places pipes are old and in need of replacement. Of the total estimated future spending, \$376 billion, or more than half, is planned for the pipes, pumps and waterways that make up collection and distribution networks.

In areas where projected water capital spending is high, often an environmental consent decree to remediate stormwater overflows or acute water quality problems are driving the costs, for instance in Jackson, Mississippi or Pittsburgh, Pennsylvania, the report found.

Utilities are also increasingly using more expensive, sophisticated data-based technology, including smart pumps and electric drives.

By REUTERS

APRIL 3, 2018, 7:10 P.M. E.D.T.

(Reporting by Hilary Russ; editing by Susan Thomas)

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## **[Fitch Places 7 State Dedicated Tax Ratings on Negative Watch on Criteria Change](#)**

**Fitch Ratings-New York/Bogota-04 April 2018:** Fitch Ratings has placed the following ratings on Rating Watch Negative following Fitch’s April 3, 2018 release of revised criteria for rating U.S. state dedicated tax bonds:

- State of Illinois Build Illinois senior and junior lien sales tax revenue bonds ‘AA+’;
- Arizona School Facilities Board state school improvement revenue bonds ‘AAA’;
- Pennsylvania Turnpike Commission (PTC) oil franchise tax senior revenue bonds ‘AA’;
- Pennsylvania Turnpike Commission registration fee revenue bonds ‘AA-’;
- Port Authority of Allegheny County, PA (PAAC) special revenue transportation bonds ‘AA’;
- Southeastern Pennsylvania Transportation Authority (SEPTA) revenue bonds ‘AA’.

With the annual update to its “U.S. Public Finance Tax-Supported Rating Criteria”, Fitch specified more limited situations in which a state dedicated tax security can be rated without regard to the state’s general credit quality. Additionally, the revised criteria now include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state’s Issuer Default Rating (IDR), can nonetheless be treated as stronger than but still linked to the state’s general credit risk. In these cases, Fitch will limit the rating on most state dedicated tax securities to no more than three notches above the state’s IDR.

For more information on the revised criteria, see “Fitch Releases Revised U.S. Public Finance Tax-Supported Rating Criteria” dated April 3, 2018 and available at [www.fitchratings.com](http://www.fitchratings.com).

## KEY RATING DRIVERS

**CHANGE IN CRITERIA:** The Rating Watches are being assigned to all state dedicated tax bond securities that historically have been rated above and without regard to the state's IDR but do not meet Fitch's revised criteria for rating without regard to the credit quality of the state.

**RATINGS LIMITED TO THREE NOTCHES ABOVE STATE IDR:** Fitch will review the credits to determine the extent of notching above the state IDR allowable under the new criteria. Except for the Build Illinois bonds, all of the securities being placed on Watch are rated within three notches of Fitch's assessment of the related state's general credit quality and could be affirmed following committee review under the revised criteria.

**KEY NOTCHING CONSIDERATIONS:** Under the revised criteria, the degree of allowable notching above the state's IDR, for those credits that do not meet Fitch's requirements for rating without regard to the state's IDR, is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the better).

**LOCAL GOVERNMENT ANALYSIS NOT AFFECTED:** Only dedicated tax bonds of U.S. states are being placed on Watch. Fitch's approach to rating dedicated tax bonds issued by U.S. local governments was unchanged in the revised criteria. Bankruptcy risk to local governments generally precludes dedicated tax bonds issued by that government from being rated higher than the entity's IDR, regardless of the strength of the security. Fitch's criteria detail four exceptions where a dedicated tax bond rating above the IDR is possible.

## RATING SENSITIVITIES

**RATING CHANGES RESOLVED WITHIN SIXTY DAYS:** Fitch expects to resolve the Rating Watches within 60 days of this release.

## SECURITY

**BUILD ILLINOIS:** Build Illinois bonds have a first and prior claim on the state share of the 6.25% unified sales tax and a first lien on revenues deposited into the Build Illinois Bond Retirement and Interest Fund (BIBRI). Debt service payments on the junior obligation bonds are subordinate to outstanding senior lien debt service.

**ARIZONA SCHOOL FACILITIES BOARD:** The bonds are payable from and have a first lien on a 0.6% voter-authorized addition to the state-wide transaction privilege and use (sales) tax.

**PTC OIL FRANCHISE TAX:** The bonds are limited obligations of the PTC, payable from an allocation of a portion of the commonwealth's OFT. The commonwealth legislature made the allocation with Act 26 of 1991, designating 14% of 55 mills of the OFT to the PTC as a continuing appropriation. The statute includes the commonwealth's covenant not to limit or alter the PTC's rights to the allocation.

**PTC REGISTRATION FEE:** The bonds are secured solely by an annual allocation of the first \$28 million of Act 3 revenues (vehicle registration revenues), payable each fiscal year to the PTC.

**PAAC and SEPTA SPECIAL REVENUE BONDS:** The bonds are limited obligations of each authority payable from the authority's allocation of revenues, not subject to appropriation, derived from various Commonwealth of Pennsylvania fees and taxes levied statewide. The allocated revenues are deposited into the Public Transportation Assistance Fund with the authority's share then transferred directly to the bond trustee.

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## **[How Blockchain Is Threatening to Kill the Traditional Utility.](#)**

- **The future is selling solar power to a neighbor with a Tesla**
- **Utilities see both opportunity and threat in new technology**

If utilities think rooftop solar panels and batteries are bad for business, blockchain should scare the bejeezus out of them.

That's because in addition to helping more people slap panels on their rooftops — which eats into power sales and taxes grids — the distributed, digital ledger that's proliferated across industries can also be used to trade electricity without a utility even knowing it. Imagine your neighbor with a solar panel directly selling you cheap power to charge your Tesla.

Sure, there are some utilities that see the future and are trying to use blockchain to their advantage, but others ignoring it may soon start losing business to new hyper-local energy suppliers with a powerful tool to manage billions of data points cheaper and faster.

[Continue reading.](#)

### **Bloomberg Technology**

By Chris Martin

April 9, 2018, 4:01 AM PDT

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## **How China's Proposed Tariffs Could Impact States' Economies.**

***China is one of our largest trading partners. U.S. exports to the country totaled \$130 billion last year.***

Fears of a trade war continue to escalate this week as Chinese officials and the Trump administration threaten to slap tariffs on a growing number of imports, potentially roiling the world's two biggest economies.

China's latest announcement, on Wednesday, outlined another round of tariffs on imports from the U.S., bringing the total to more than 230 different products. The initial list of proposed tariffs, which focused on agricultural items, has since been lengthened to include motor vehicles, medical equipment, plastics and a slew of other goods from almost every corner of the U.S. economy.

And on Thursday, President Trump doubled down, calling for \$100 billion more in tariffs on Chinese imports.

It's unknown how the trade dispute will unfold. But what is certain is that the consequences of China's tariffs would play out unevenly across state and regional economies. Although there's no precise state-level data tracking trade exports, several federal datasets provide an idea of just how much tariffs could disrupt state economies.

[Continue reading.](#)

GOVERNING.COM

BY MIKE MACIAG | APRIL 5, 2018

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## **Outside Disneyland, a Reminder for Governments to Be Careful What They Wish For.**

***Cities have become increasingly focused on doing whatever it takes to attract large corporations. But it's hard to govern a one-company town. Just ask Anaheim.***

When Disneyland opened in Anaheim, Calif., in 1955, throngs of people came to experience a theme park unlike anything they'd seen before. It soon became known as "the happiest place on earth." For years, the Walt Disney Company seemed to have a happy partnership with the city of Anaheim, too.

Anaheim has traditionally been open-handed with the international attraction that dominates its economy. Two decades ago, for instance, it agreed to issue a \$510 million bond to upgrade the area around Disneyland, rebuild the convention center and provide Disneyland with a 10,000-space parking garage. The city also promised not to impose gate taxes on Disney tickets for at least 20 years. More recently, the city agreed to provide developers — including the Walt Disney Company — with more than \$600 million in incentives to encourage the development of four new luxury hotels. It also extended the gate tax moratorium for another 45 years. In exchange, Disney promised to invest more than \$1.5 billion in Anaheim by adding a major new attraction, Star Wars: Galaxy's Edge, which is slated to open next year.

But some have been critical of the city in its dealings with Disney. Those investments, they say, would have been made by the company anyway. For years, Anaheim's politicians largely ignored these objections. Instead, they accepted Disney's arguments that such deals were model public-private partnerships. But that attitude has begun to change. Disney "keeps talking about how it's the economic engine of the city and how we need to keep investing because we get so much in return," says Jose Moreno, a California State University, Long Beach professor who was elected to the Anaheim City Council in 2016. "But for every engine, there is exhaust, and there are parts of the city having to breathe that exhaust: the working poor."

[Continue reading.](#)

GOVERNING.COM

BY JOHN BUNTIN | APRIL 2018

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## **[State Preemption of Local Authority Continues to Rise, According to New Data from the National League of Cities.](#)**

WASHINGTON — April 4, 2018 — Today the National League of Cities (NLC), in partnership with state municipal leagues, released an update to its report, [City Rights in an Era of Preemption](#), that reveals state preemption of local authority is increasing throughout the country. From minimum wage to municipal broadband, the report illuminates the worsening trend of infringements on local democracy.

"People who live in cities and towns want control over their own destinies," said National League of Cities (NLC) CEO and Executive Director Clarence E. Anthony. "When states take away the ability of local leaders to make decisions, the values and will of the people are ignored."

More than half of all states now ban local efforts to combat inequality through minimum wage policy, while 23 states have denied local governments the power to enact paid sick leave policies. States have shut down local LGBTQ anti-discrimination ordinances, undermined efforts to advance environmental protection, and stifled innovation by preventing cities from having a say on high-speed broadband.

NLC's research analyzes state preemption bills and judicial activity in the areas of minimum wage, paid leave, anti-discrimination, ride hailing, home sharing, municipal broadband, and tax and expenditure limitations. Compared to last year, 19 new laws were passed that will prevent cities from helping their communities across these 7 policy areas.

Additional states preempted local governments in the following ways:

- 12 percent increase in minimum wage preemption laws (3 additional states for a total of 28)
- 21 percent increase in paid leave preemption laws (4 additional states for a total of 23)
- 11 percent increase in ride sharing preemption laws (4 additional states for a total of 41)
- 67 percent increase in home sharing preemption laws (2 additional states for a total of 5)
- 18 percent increase in municipal broadband preemption laws (3 additional states for a total of 20)

Increased preemption has been linked to lobbying efforts by special interests, the spatial sorting of political preferences between urban and rural areas, and single-party dominance in most state governments. As preemption proliferates, local leaders are prevented from keeping people safe,



expanding rights, building stronger economies, and promoting innovation.

“When state laws nullify municipal ordinances or authority, the loss of local control can have far-reaching economic and social impacts in communities,” said Brooks Rainwater, Senior Executive and Director, NLC’s Center for City Solutions. “Local control and city rights are priority number one. We know well that innovation happens in cities and then percolates upwards – this process should be celebrated not stymied.”

Divorcing decision-making from the wants and needs of community members in this way creates an environment that counters the values of local democracy. To ensure that the core values of community members are heard and reflected in the policies and priorities of government, NLC launched the Local Democracy Initiative, of which this report is a key component. NLC is also working to equip city leaders with tools and strategies to prevent and reverse preemption through peer learning, evidence-based research and policy development.

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## **Rules of Engagement: How Cities Are Courting Amazon’s New Headquarters.**

### ***Finalists for the company’s second home base break out bicycles to win over the internet giant***

Don’t get too fancy. Head to edgier, trendier neighborhoods. And definitely stay on time.

These are a few of the tricks cities are deploying in their all-out effort to woo Amazon.com Inc.’s new headquarters, a move the online retailer says could bring nearly 50,000 jobs and more than \$5 billion in investment over nearly two decades. Amazon executives have quietly visited more than half of the cities on its list of 20 finalists, which are vying to host what it calls HQ2, according to people familiar with the matter. The visits, which started in recent weeks, have included Dallas, Chicago, Indianapolis and the metropolitan Washington, D.C., area.

Amazon hasn’t provided much guidance on what it expects from the site visits. It has asked for breakout sessions on education and talent, plus visits to the sites it is considering, all within a strict time frame of two days, max. The rest is up to local officials.

[Continue reading.](#)

### **The Wall Street Journal**

By Laura Stevens, Shibani Mahtani and Shayndi Raice

April 2, 2018

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## **Local Laws Imperil 5G Innovation.**

### ***Misapplied zoning rules and huge fees block antennas the size of pizza boxes.***

Marty Cooper stepped out of his office and onto a New York street corner, pulled out his phone, and made a call. It happens millions of times a day—but it didn’t then. It was April 3, 1973, and Mr. Cooper, now 89, was making the first call ever from a hand-held cellphone.

Forty-five years later, governmental obstacles threaten to block a new wave of wireless innovation, known as fifth generation or “5G.” It will multiply download speeds by at least 10 times, allowing wireless carriers to compete with cable companies for high-speed internet access. With superfast speeds and low lag times, 5G will enable advances in everything from driverless cars to the “tactile internet,” in which surgeons can perform operations and builders operate construction equipment remotely, and entertainment can include sensations beyond the audiovisual.

A 5G-enabled Internet of Things will connect people, data and new devices, creating a surge of economic growth. IHS Markit estimates that in the U.S. alone 5G will yield \$719 billion in growth and 3.4 million new jobs by 2035. The world-wide figures could be as high as \$3.5 trillion and 22 million jobs.

But to prepare for 5G, wireless carriers need to deploy thousands of “small cell” antennas, the size of pizza boxes. Even though small cells can fit invisibly on rooftops and lampposts, some state and local governments are acting as if they’re 100-foot towers.

In some places, outdated local requirements prohibit carriers from placing small cells in local rights-of-way and on government-owned utility poles. Zoning ordinances designed for much larger towers often require local zoning boards to approve small cells. Some localities refuse altogether to negotiate right-of-way access, while others impose prohibitive fees and other unreasonable conditions.

One Georgia municipality is considering an annual fee of \$6,000 to attach a small cell to city-owned structures. Three cities in California demand annual payments between \$2,600 and \$8,000 for each cell attached to a city-owned utility pole. Newport Beach, Calif., is charging \$10,800.

More than a dozen states have approved laws to streamline regulations for small-cell installations. By capping municipal fees at reasonable levels—usually a few hundred dollars a cell—limiting review time, and allowing small cells in most public rights-of-way, these states are saying they want the benefits of the 5G revolution.

Most states, however, have declined to take constructive action, imperiling U.S. 5G leadership. But the Federal Communications Commission is showing a way out. On a party-line 3-2 vote in March, the FCC took its first step by exempting small cells from federal environmental and historic preservation reviews, streamlining small cell reviews on tribal lands, and setting a time-frame for FCC action. But the FCC hasn’t yet acted to curb state and local 5G internet “taxes” and needless delays. The commission may take these steps later this year, and it should act fast so the U.S. ensures its leadership and makes the visionary Marty Cooper proud.

## **The Wall Street Journal**

By Robert McDowell

April 2, 2018

*Mr. McDowell, a former FCC commissioner (2006-13), is a partner at Cooley LLP and chief public policy adviser to Mobile Future.*

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**[Baltimore Trying New Tack to Pay for Costly Stormwater Projects.](#)**

## ***City to issue \$6.2 million in ‘environmental impact bonds’ to finance runoff-reducing green infrastructure***

Baltimore is slated to be the second city in the Chesapeake Bay region to try a novel way of financing its costly water pollution reduction projects under a plan announced Monday by city officials and the [Chesapeake Bay Foundation](#).

City officials said that with assistance provided through the Bay Foundation, they expect to issue up to \$6.2 million in “environmental impact bonds” later this year to help pay for green infrastructure projects aimed at managing stormwater in more than three dozen neighborhoods.

“Baltimore can and, we predict, will be a model for innovation in pollution reduction,” declared Bay Foundation President Will Baker at a news conference announcing the deal in West Baltimore by the site of one of the planned projects. “It’s a partnership with nature to save dollars and reduce pollution.”

The Annapolis-based Bay Foundation hired [Quantified Ventures](#), an “impact” investment advisory firm based in Washington, DC, to work with Baltimore to structure the bond deal.

Rudy Chow, the city’s public works director, said officials were looking to diversify the city’s borrowing as it attempts to curtail polluted runoff at the source. Baltimore is required by federal and state regulators to reduce and treat polluted runoff from more than 4,000 acres of pavement and buildings across the city by 2019.

Instead of building holding tanks and other hard infrastructure to collect and treat stormwater, city officials hope to use nature — by replacing asphalt and concrete pavement with grassy areas that can soak up rainfall and the pollutants it picks up. They have identified about 90 greening projects they intend to complete by year’s end to enhance neighborhood’s quality of life while also reducing runoff.

The overall cost is projected to be \$10.3 million, with the rest to be financed through traditional municipal borrowing.

The Baltimore deal is inspired by a much larger, \$25 million environmental impact bond issued in 2016 by the District of Columbia Water & Sewer Authority. [DC Water](#), as the authority is commonly known, was the first in the nation to use the financing tool to reduce chronic problems with rain-driven sewage overflows into the Potomac and Anacostia rivers.

DC Water also hired Quantified Ventures to help it issue the bonds.

“We really think that we’re starting a movement here in the watershed and across the country,” said Carolyn duPont, director of Quantified Ventures. “We believe that environmental impact bonds will be a key part of public finance in the future. Budgets are always squeezed for cities, and there’s also an ever-growing group of impact investors who are really excited to put their money and capital to work into projects like these that have both a financial return as well as environmental and social benefits.”

Environmental impact bonds are a variation on “social impact bonds,” which are familiar to charity-minded investors who focus on issues like chronic homelessness and prison recidivism. These bonds are meant to attract investors who not only expect a modest financial return, but also want to support environmental improvements.

As with conventional municipal bonds — which fund schools or roads, for instance — the bond issuer

(the borrowing municipality) makes periodic interest payments on the amount invested, at an agreed rate, until the bond's maturity date, at which point the borrower pays back the entire principal.

But environmental impact bonds differ from traditional bonds: The municipality and investors share the risk of the investment to some degree, because the payback of the bond is based on the relative success or failure of the project. Given that setup, they are often called "pay for success" bonds.

If the project simply meets expectations, the investor will receive interest payments at the agreed-upon rate. If the project fails to meet expectations, the terms of the bond help the municipality recoup some of the cost by specifying that the investor earns little or no interest. This allows the city to protect its budget and likely channel the money held back from investors toward additional projects that help meet regulatory requirements.

If the project exceeds expectations, by curbing more pollution than anticipated, the municipality saves money by reducing the need for other projects. The investor benefits from these cost savings by receiving interest payments plus a premium – referred to as a "performance payment."

In DC Water's case, the authority is working under a consent decree reached with the U.S. Environmental Protection Agency in 2005 to reduce overflows from the combined sewer system into the Anacostia and Potomac rivers. The environmental bonds were issued to pay for installing green infrastructure — such as rain gardens, permeable pavement, green roofs and rain barrels — to soak up rainfall on a 20-acre area that otherwise would drain into the sewer system and overload it. DC Water believes such projects will be a cheaper way to reduce overflows than to build more costly underground tunnels to hold the polluted water until it can be treated at the Blue Plains wastewater treatment plant.

Once DC Water completes the green infrastructure projects, it plans after five years to compare runoff from the "greened" area before and after construction. If the projects reduce runoff by more than 41.3 percent, DC Water will pay investors an "outcome payment" of \$3.3 million on top of what they would be due on the bonds. And if the project reduces runoff by less than 18.6 percent, investors will owe a "risk-share" payment to DC Water in the form of a reduced payback on their bonds. Any reduction between those benchmarks would not require any extra payments in either direction.

While the bond issuer, under such terms, might get compensated for a project's failure or low performance, the downside likely would be substantial. DC Water, in this case, would still be liable under the 2005 consent decree to reduce sewage overflows by the promised amount, so they would have to fix the project or come up with another.

On the flip side, a bond issuer could wind up paying more to borrow for a project that does better than expected, but proponents say it saves the issuer from having to spend as much on other projects to reduce pollution. If DC Water learns from the experience that green infrastructure is significantly more effective than originally thought, instead of having to invest in an additional 300-plus acres of green infrastructure, it might be able to do less.

With funding from the [Kresge Foundation](#), the Bay Foundation has contracted with Quantified Ventures to help Baltimore structure its environmental impact bonds and market them to investors, foundation spokesman Tom Zolper said. Third-party funding was needed, explained Quantified Ventures' duPont, because this type of financing is new and relatively unproven, and it requires some extra work to figure out up front how to measure the projects' performance.

Despite their novelty, proponents hope the environmental impact bonds will prove attractive to

investors. DC Water's 30-year bonds sold at the same 4.34 percent interest rate that the authority pays on its conventional financing, duPont said.

Details of the Baltimore deal are still being worked out, but the city's public works director said he hoped that the "pay for success" approach will attract new investors willing to share the risk of trying to reduce stormwater runoff, which is a major source of nutrients, sediment and other pollutants fouling local streams, the harbor and the Bay.

Baltimore has budgeted \$79 million to spend on stormwater projects this fiscal year, and expects to spend \$74 million next year, said Troy Brogden, the city's chief fiscal officer. City officials opted to finance only a small chunk of its stormwater work with environmental impact bonds to test the concept, he said.

The Bay Foundation-Quantified Ventures partnership also hopes to persuade other municipalities and local governments to try the financing tool. Last summer, the foundation launched a search for municipalities and utilities in Maryland, Pennsylvania or Virginia that might be looking for ways to pay for their stormwater upgrades.

"Stormwater is a pollution source that is not going away. In fact, it's increasing in the Bay watershed," said Lee Epstein, lands program director and special counsel for the foundation. "And it's incredibly expensive to manage... We really want to see if [environmental impact bonds] could be made broadly available for more green infrastructure projects where some other kind of financing cannot. At this point, we're just not sure."

The pilot project seeks to help up to four local governments or utilities line up an environmental impact bond. The foundation hosted an informational webinar in September 2017 and shortly thereafter sent out a call for applications from localities that are under a mandate to upgrade their stormwater systems and have the necessary permits in place.

"Ideally, we're looking for communities that have green infrastructure projects that are ready to go," said Quantified Ventures' duPont during the September webinar, "and by that we mean they're in the planning process and within the next 12 to 18 months would be ready to implement those projects, assuming we can help [them] get the financing lined up."

Meanwhile, Al Wylie, president of the Harlem Park Neighborhood Council in West Baltimore, said residents were eager to re-green the patch of asphalt where the press conference took place. Over the years, pocket parks like this one in densely developed parts of Baltimore have been paved over and become litter-strewn places to avoid rather than amenities. Wylie said that in addition to grass, he'd like to see playgrounds and biking and hiking trails put in.

"It allows the community to be cleaner and safer," he said.

## **Bay Journal**

By Donna Morelli and Timothy B. Wheeler on March 28, 2018

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## **[Battered by Great Recession, Underfunded Public Pensions to Persist.](#)**

CHICAGO — Ten years on from the financial crisis, many U.S. state and local public pension systems are still the worse for wear.

Investment returns have been uneven and funding levels have yet to recover. Many pension funds have meanwhile attempted to boost returns by loading up on alternative investments to levels unheard of a decade earlier.

“Some just cannot grow their way out of it. We have had several years of stellar (stock market) returns and it barely improved the underfunding situation,” said Mikhail Foux, municipal credit analyst at Barclays in New York.

The benchmark S&P 500 U.S. stock index has tripled in the past nine years, driven in part by unprecedented zero interest rate policies and massive monetary stimulus from central banks around the globe aimed at combating the deepest recession in a generation.

But pension returns struggled to match the broad market, and recent wobbles in U.S. equities have fed fears of another downturn.

“Now what happens when markets are falling 10 to 15 percent?” Foux asked.

For an interactive graphic on public pension plan funded levels, click: <http://tmsnrt.rs/2tPyAFf>

In 2007, a year before the crisis began, the median funded level was 92 percent for state retirement and 97 percent for local plans, according to Wilshire Funding Studies. That fell to 68 percent for states and 72 percent for local governments by 2016, the most recent data.

A lower funded ratio indicates the overall soundness of a pension fund is weaker and more money is required to meet future obligations.

## EXPOSED

Persistently low post-crisis interest rates meant pension funds could no longer depend to the same degree on fixed income to help meet withdrawal demands of an aging pensioner population.

“When the crisis hit, it exposed the kind of precarious nature of the status of plans,” said Jean-Pierre Aubry, state and local research director at Boston College’s Center for Retirement Research.

Even with U.S. rates inching higher since 2016 and stocks mounting record highs, pensions still struggled to generate consistent returns.

For an interactive graphic on public pension annual median returns, click: <http://tmsnrt.rs/2tRGptV>

The number of active public sector workers per retiree has been falling. That ratio declined to 1.42 in 2016 from 2.43 in 2001, according to a November 2017 National Association of State Retirement Administrators (NASRA) Public Fund Survey. That can boost pension costs when combined with a poorly funded plan.

For an interactive graphic of state and local government pension plan membership, click: <http://tmsnrt.rs/2oZwAVq>

## RISK TAKERS

The sharp economic downturn that accompanied the 2007-2009 financial crisis weighed on core tax revenue, leading governments to pursue an unprecedented amount of reform measures to shore up pensions by boosting contributions and cutting benefits.

“Just as these pension funds required higher contributions as a result of the market decline, the plan

sponsors were less able to pay those higher contributions,” said Keith Brainard, NASRA’s research director.

That prompted retirement systems to turn to riskier alternative investments such as hedge funds, private equity, real estate and commodities to pad returns.

U.S. public pension funds became the biggest risk-takers among pension funds internationally, according to one academic study updated in February 2017.

To read the study, click: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2070054](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2070054)

Alternative investment allocations jumped to 24 percent in 2015 from 9 percent in 2005, according to the Center for Retirement Research.

“We know for the most part that alternatives have not been the panacea since the financial crisis,” Aubry, noting that hedge funds and commodities have underperformed equities during that period.

Public pension funds’ assumed rates of investment return have trended lower since the crisis. If a plan’s returns fall below that expected rate, government sponsors need to make up for the loss.

But public plans in general have tended to lag private-sector pension plans in lowering those discount rates, according to data cited by New York’s Rockefeller Institute of Government last year.

Between 1993 and 2012, as 10-year U.S Treasury yields fell by 4.3 percentage points, large private-sector U.S. plans reduced their discount rates to 4.4 percent from 8.2 percent.

For large public plans for funding purposes, the rate only fell from 7.8 percent to 7.7 percent in the same period, according to the institute’s report.

## LEGAL BATTLES

In the years since the crisis it has proven difficult for some governments to modify retirement benefits, and legal wranglings are ongoing.

Legal or political constraints have stymied changes in states like Illinois, Kentucky and New Jersey, where contributions have lagged actuarially required levels for decades.

Lawsuits filed against more than 40 state and local governments since 2008 contested pension changes on constitutional grounds, according to the Laura and John Arnold Foundation, which tracks the litigation.

Courts in 13 states have upheld reductions in cost-of-living adjustments (COLA) for retirees’ pension payments, but have struck reductions down in four.

In California, long-standing judicial rulings prohibiting the state and local governments from reducing benefits will be tested in three lawsuits before the state supreme court, according to Stuart Buck, the Arnold Foundation’s vice president of research.

By REUTERS

MARCH 26, 2018, 1:17 A.M. E.D.T.

(Reporting By Karen Pierog and Daniel Bases; Editing by Meredith Mazzilli)



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## **Municipal Bonds Were Supposed to Get More Expensive in 2018. Why Didn't That Happen?**

### ***A widely followed municipal-bond index had its worst first quarter in 15 years***

The first quarter is normally one of the best times of year to be a municipal bond holder. Not in 2018.

A widely followed municipal-bond index fell more in the first three months—1.11%—than any first quarter of the past 15 years. That is because new tax rules and concerns about rising interest rates are pushing down demand for new debt from state and local governments.

“We haven’t seen prices drop this much in a long time,” said Howard Cure, director of municipal bond research at Evercore Wealth Management.

The last time the Bloomberg Barclays Municipal Bond Total Return Index dropped for the entire first quarter was in 2008.

Bond values usually jump in the first few months of the year as investors look to reinvest cash from stock gains and maturing bonds. Prices were expected to again follow that pattern this year due to limited supply.

But this time, demand turned scarce early in the year, partly because Congress late last year passed new legislation lowering tax rates, making tax-exempt bonds less appealing for banks and insurance companies that traditionally hold a large chunk of the nation’s municipal debt. The tax rates paid by these institutions fell to 21% from 35%.

“With the lower corporate tax rate, there is less incentive for banks and property and casualty companies to buy munis,” said Vikram Rai, Head of Municipal Strategy at Citigroup.

At the same time, individual investors became wary about the prospects for inflation and higher interest rates. Inflation undermines the value of outstanding bonds in part by reducing the purchasing power of their fixed payments, and rising rates make newly issued bonds more appealing than outstanding bonds with lower coupons, driving down their prices. Federal officials in March raised interest rates and are forecasting two more rate increases in 2018.

The low bond prices have driven up borrowing costs for state and local governments that have issued debt in recent months. The state of Maryland, for example, is paying yields of 2.54% on 10-year general-obligation debt issued in March. That is up from 2.49% on 10-year general-obligation debt sold in March 2017. These bonds typically pay for schools, hospitals and other public projects.

To be sure, mutual-fund investors did buy bonds in January as nearly \$6 billion flowed into municipal-bond funds, an uptick analysts attributed to efforts to rebalance portfolios following stock gains. That is 58% above the average for the past five first quarters.

But in February and March, investors put \$268 million into municipal-bond mutual funds, according to Lipper data. It was the lowest inflow for the period in the past five years and a 92% drop from the five-year average for the first quarter.

“Investors may want to sell but most buyers would rather wait and see what happens,” said Patrick Luby, senior municipal strategist at CreditSights.



Some bonds bucked the pricing trend: Municipal debt tied to Puerto Rico increased in value during the first quarter because of investor hopes that the island would recover more quickly from Hurricane Maria than previously expected.

## **The Wall Street Journal**

By Heather Gillers

March 31, 2018 8:00 a.m. ET

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### **Lower Tax Rate Boosts Case for Corporate Bonds Over Munis - Paychex CFO**

The U.S. corporate tax overhaul has helped make corporate bonds more competitive with municipal issuance said the finance chief of payroll processor Paychex, Inc.

The Rochester, N.Y.-based company has a roughly \$5 billion investment portfolio that has traditionally been heavily weighted toward municipal bonds, said Chief Financial Officer Efrain Rivera. Munis, as they're commonly known, typically pay a lower rate of return than corporate bonds, but that income is treated as tax-free. By contrast, the company's income from the higher-earning corporate bonds falls subject to the corporate tax rate, which was reduced to 21% from 35% previously.

"Now with tax reform, the pricing between corporate and municipal bonds is giving you a little bit more of an advantage on the corporate side, even after paying taxes," Mr. Rivera said in an interview with CFO Journal. "We're looking to increase more in corporate (bonds)," he said.

Mr. Rivera said he believes the corporate bond market will be stable over the next 12 months. However, some analysts forecast companies will have less incentive for new borrowing because the tax overhaul has increased the share of profits they get to retain.

"If anything, we are concerned about supply on the municipal side as demand slides," he said.

Mr. Rivera said that the company will make several investments following tax reform. Paychex will pay a bonus to employees and invest in internally developed software. The company will also look to be more aggressive in scouting acquisitions even as the soaring stock market inflates target prices.

"Valuations are very high, especially in anything that is related to fintech," he said. "But if you do your homework and it makes strategic sense...we'll look at other opportunities in the future." He estimates that the company typically strikes 1 to 2 deals annually valued at \$200 million a piece.

Net income for the company's recently completed third quarter rose 29% to \$260.4 million compared to the same period last year. Revenue totaled \$866.5 million for the period, up from \$795.8 million, a year ago.

## **The Wall Street Journal**

By Ezequiel Minaya

Mar 27, 2018 6:30 am ET

